ADVANTAGE ENERGY LTD.

(Formerly, Advantage Oil & Gas Ltd.)

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months and years ended December 31, 2021 and 2020

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

On May 18, 2021, Advantage Oil & Gas Ltd. changed its name to Advantage Energy Ltd. as approved by its shareholders. The following Management's Discussion and Analysis ("MD&A"), dated as of February 24, 2022, provides a detailed explanation of the consolidated financial and operating results of Advantage Energy Ltd. ("Advantage", the "Corporation", "us", "we" or "our") for the three months and year ended December 31, 2021 and should be read in conjunction with the December 31, 2021 audited consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), representing generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. All references in the MD&A and consolidated financial statements are to Canadian dollars unless otherwise indicated.

This MD&A contains specified financial measures such as non-GAAP financial measures, non-GAAP financial ratios, capital management measures, supplementary financial measures and forward-looking information. Readers are advised to read this MD&A in conjunction with both the "Specified Financial Measures" and "Forward-Looking Information and Other Advisories" found at the end of this MD&A.

Financial Highlights	**Three months ended December 31**		**Year ended December 31**	
($000, except as otherwise indicated)	**2021**	**2020**	**2021**	**2020**
Financial Statement Highlights				
Natural gas and liquids sales	**159,255**	73,203	**492,035**	245,085
Net income (loss) and comprehensive income (loss)	**359,956**	24,168	**411,354**	(284,045)
per basic share [(2)]	**1.90**	0.13	**2.17**	(1.51)
Basic weighted average shares (000)	**190,829**	188,113	**190,077**	187,761
Cash provided by operating activities	**67,464**	30,260	**223,152**	100,714
Cash provided by (used in) financing activities	**(27,423)**	5,071	**(83,411)**	48,087
Cash used in investing activities	**(44,939)**	(37,325)	**(117,782)**	(158,621)
Other Financial Highlights				
Adjusted funds flow [(1)]	**71,227**	31,738	**234,824**	104,661
per boe [(1)]	**16.15**	7.92	**13.01**	6.37
per basic share [(1)(2)]	**0.37**	0.17	**1.24**	0.56
Net capital expenditures [(1)]	**58,384**	32,390	**149,403**	157,935
Free cash flow [(1)]	**12,843**	(652)	**85,421**	(53,274)
Working capital (surplus) deficit [(1)]	**(2,092)**	4,292	**(2,092)**	4,292
Bank indebtedness	**167,345**	247,105	**167,345**	247,105
Net debt [(1)]	**165,253**	251,397	**165,253**	251,397

(1) Specified financial measure which is not a standardized measure under IFRS and may not be comparable to similar specified financial measures used by other entities. Please see "Specified Financial Measures" for the composition of such specified financial measure, an explanation of how such specified financial measure provides useful information to a reader and the purposes for which management of Advantage uses the specified financial measure, and/or where required, a reconciliation of the specified financial measure to the most directly comparable IFRS measure.

(2) Based on basic weighted average shares outstanding.

Operating Highlights	**Three months ended December 31**		**Year ended December 31**	
	2021	**2020**	**2021**	**2020**
Operating				
Production				
Crude oil (bbls/d)	**816**	1,653	**1,101**	1,664
Condensate (bbls/d)	**1,012**	653	**844**	715
NGLs (bbls/d)	**2,524**	2,234	**2,548**	2,029
Total liquids production (bbls/d)	**4,352**	4,540	**4,493**	4,408
Natural gas (Mcf/d)	**261,530**	233,949	**269,710**	243,081
Total production (boe/d)	**47,940**	43,532	**49,445**	44,922
Average realized prices (including realized derivatives)				
Natural gas ($/Mcf)	**4.17**	2.45	**3.38**	2.02
Liquids ($/bbl)	**54.70**	41.29	**50.92**	37.43
Operating Netback ($/boe)				
Natural gas and liquids sales	**36.11**	18.28	**27.26**	14.91
Realized losses on derivatives	**(8.41)**	(0.74)	**(4.13)**	(0.28)
Royalty expense	**(2.02)**	(0.77)	**(1.53)**	(0.64)
Operating expense	**(2.92)**	(2.68)	**(2.49)**	(2.43)
Transportation expense	**(4.48)**	(3.62)	**(3.90)**	(3.39)
Operating netback [(1)]	**18.28**	10.47	**15.21**	8.17

(1) Specified financial measure which is not a standardized measure under IFRS and may not be comparable to similar specified financial measures used by other entities. Please see "Specified Financial Measures" for the composition of such specified financial measure, an explanation of how such specified financial measure provides useful information to a reader and the purposes for which management of Advantage uses the specified financial measure, and/or where required, a reconciliation of the specified financial measure to the most directly comparable IFRS measure.

Corporate Update

2022 Guidance

On December 6, 2021, the Corporation announced its 2022 budget (see News Release dated December 6, 2021). Advantage's 2022 capital program will be focused on growing adjusted funds flow per share by continuing to drill high rate-of-return targets in areas with existing infrastructure capacity. An escalating emphasis will be placed on increasing liquids revenue and making infrastructure investments that either increase third-party processing revenue or establish carbon revenue for Entropy. With a current expected payout ratio of less than 0.50, Advantage plans to dedicate free cash flow towards debt reduction. The below table summarizes Advantage's 2022 guidance:

Forward Looking Information[1]	**2022 Guidance**
Cash Used in Investing Activities [2] ($ millions)	170 to 200
Average Production (boe/d)	52,000 to 55,000
Liquids Production (bbls/d)	5,400 to 5,800
Royalty Rate (%)	7 to 9
Operating Expense ($/boe)	2.45
Transportation Expense ($/boe)	4.35
G&A/Finance Expense ($/boe)	1.55

(1) Forward-looking statements and information representing Management estimates. Please see "Forward-Looking Information and Other Advisories".

(2) Cash Used in Investing Activities is the same as Net Capital Expenditures as no change in non-cash working capital is assumed between years and other differences are immaterial.

2021 Guidance Update

The Corporation's 2021 financial and operational results were largely within guidance expectations. The below table summarizes Advantage's 2021 guidance compared to actual 2021 financial and operational results:

	2021 Guidance	**2021 Actual**	**% Variance from 2021 Guidance**
Net capital expenditures ($ millions)[3][5]	140 to 150	149.4	-
Average Production (boe/day)[2]	48,000 to 51,000	49,445	-
Liquids Production (% of total production)[1]	8 to 9	9.1	0.1
Royalty Rate (%)[1]	3 to 5	5.6	0.6
Operating Expense ($/boe) [1]	2.55	2.49	(2)
Transportation Expense ($/boe) [1]	4.15	3.90	(6)
G&A/Finance Expense ($/boe) [1][4]	2.00	2.20	10

Notes:

(1) See News Release dated October 29, 2020 for initial forward looking information.

(2) See News Release dated February 25, 2021 for revised forward looking information.

(3) See News Release dated August 31, 2021 for revised forward looking information.

(4) Finance expense excludes accretion of decommissioning liability.

(5) Specified financial measure which may not be comparable to similar specified financial measures used by other entities. Please see "Specified Financial Measures".

Corporate Update (continued)

2021 Guidance Update (continued)

Advantage incurred a royalty rate that was 0.6% above our 2021 range, which was a result of the increased pricing environment for natural gas. The Corporation incurred transportation expense that was 6% below 2021 guidance, which was largely due to lower-than-expected pipeline tolls. The Corporation incurred G&A and finance expense that was 10% above 2021 guidance, which was due to a significant increase in the valuation of the Deferred Share Units liability as a result of the 333% increase in share price, which accounted for an additional $0.20/boe in G&A expense.

Entropy Inc.

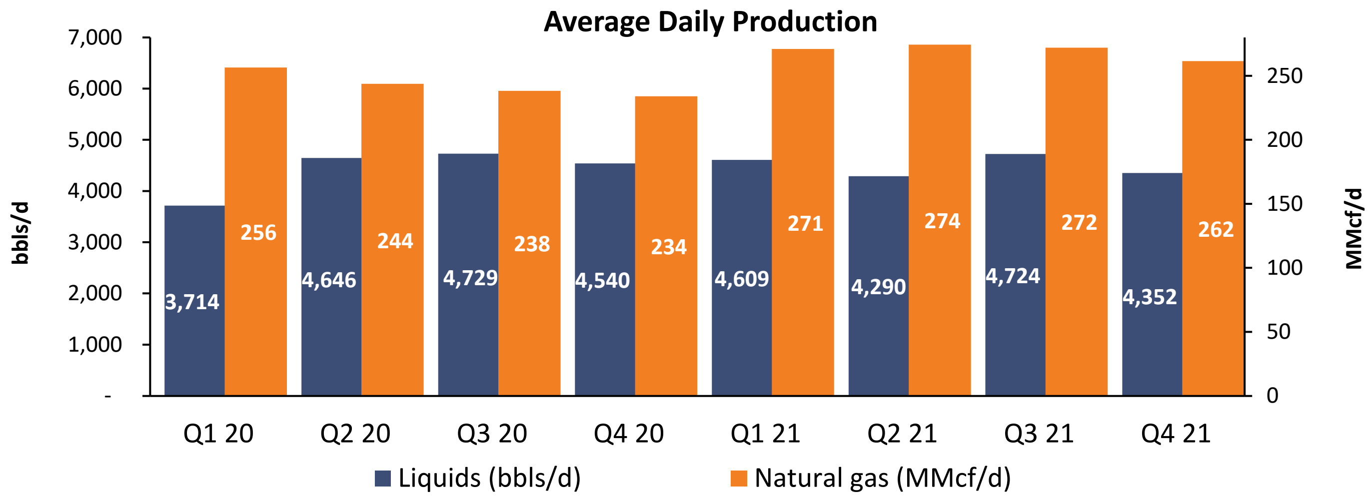
In March 2021, Advantage created Entropy Inc. (“Entropy”), a private cleantech company focused on commercializing energy-transition technologies. Entropy’s Modular Carbon Capture and Storage (“MCCS”) technology can be retrofitted to most point-source industrial emissions, including sectors that are difficult to decarbonize like power generation, blue hydrogen, liquified natural gas, oil and gas processing, and production of cement and steel. Combining Entropy’s technology and world-class solvent, Entropy23™, Entropy expects to play an important role in the effort to decarbonize. Entropy plans to commit capital to build carbon capture and storage (“CCS”) facilities in exchange for virtually all associated environmental attributes (carbon credits, clean fuel regulation credits, incentive tax credits, etc.)

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.

On December 30, 2021, Entropy and a leading energy transition investor agreed to the terms of an exclusive, non-binding financing agreement expected to provide sufficient capital for the execution of Entropy's near-term growth plan, including a structured initial commitment of $300 million, which is expected to be completed in 2022.

Production

Average Daily Production	Three months ended December 31 2021	2020	% Change	Year ended December 31 2021	2020	% Change
Crude oil (bbls/d)	816	1,653	(51)	1,101	1,664	(34)
Condensate (bbls/d)	1,012	653	55	844	715	18
NGLs (bbls/d)	2,524	2,234	13	2,548	2,029	26
Total liquids production (bbls/d)	**4,352**	**4,540**	**(4)**	**4,493**	**4,408**	**2**
Natural gas (Mcf/d)	261,530	233,949	12	269,710	243,081	11
Total production (boe/d)	**47,940**	**43,532**	**10**	**49,445**	**44,922**	**10**
Liquids (% of total production)	9	10		9	10	
Natural gas (% of total production)	91	90		91	90	



For the three months ended December 31, 2021, Advantage recorded total production averaging 47,940 boe/d, while achieving record annual total production of 49,445 boe/d for the year ended December 31, 2021, increasing 10% compared to the same periods of the prior year.

Natural gas production for the three months and year ended December 31, 2021 averaged 262 MMcf/d and 270 MMcf/d, respectively, increases of 12% and 11% compared to the same periods of the prior year. Advantage's natural gas production increased as a result of 22 gross (21.4 net) wells brought onstream at Glacier, and 2 gross (2.0 net) wells brought onstream at Valhalla, with 9 gross (8.4 net) natural gas wells being brought onstream in the fourth quarter of 2021. Natural gas production decreased in the fourth quarter of 2021 from the third quarter of 2021 due to unplanned "firm service" restrictions on TC Energy's NGTL system.

Liquids production for the three months and year ended December 31, 2021 averaged 4,352 bbls/d and 4,493 bbls/d, respectively, a decrease of 4% and an increase of 2% compared to the same periods of the prior year. Liquids production has remained relatively flat, with associated liquids from natural gas drilling offsetting normal declines.

Advantage expects total annual production to increase to between 52,000 and 55,000 boe/d in 2022 based on the Corporation's planned 2022 capital program (see "Corporate Update"). In the first quarter of 2022, Advantage planned and budgeted downtime at the Glacier Gas Plant, as is occasionally required for preventative maintenance, and to complete final construction and installation of the Phase 1 CCS project. This downtime will result in first quarter 2022 production being at the low end of our provided annual production range.

Commodity Prices and Marketing

Average Realized Prices[2]	Three months ended December 31 2021	2020	% Change	Year ended December 31 2021	2020	% Change
Natural gas						
Excluding derivatives ($/Mcf)	5.44	2.67	104	3.97	2.16	84
Including derivatives ($/Mcf)	4.17	2.45	70	3.38	2.02	67
Liquids						
Crude oil ($/bbl)	90.89	46.91	94	77.66	37.92	105
Condensate ($/bbl)	96.02	50.27	91	81.89	46.18	77
NGLs ($/bbl)	54.39	27.04	101	47.77	24.35	96
Total liquids excluding derivatives ($/bbl)	70.91	37.62	88	61.50	33.01	86
Total liquids including derivatives ($/bbl)	54.70	41.29	32	50.92	37.43	36
Average Benchmark Prices						
Natural gas [1]						
AECO daily ($/Mcf)	4.66	2.64	77	3.62	2.23	62
AECO monthly ($/Mcf)	4.93	2.76	79	3.57	2.22	61
Empress daily ($/Mcf)	5.02	2.62	92	3.88	2.25	72
Henry Hub ($US/MMbtu)	5.32	2.47	115	3.97	1.99	99
Emerson 2 daily ($US/MMbtu)	4.30	2.23	93	3.41	1.84	85
Dawn daily ($US/MMbtu)	4.65	2.25	107	3.61	1.87	93
Chicago Citygate ($US/MMbtu)	5.86	2.48	136	3.78	1.98	91
Ventura ($US/MMbtu)	5.63	2.45	130	3.66	1.87	96
Liquids						
WTI ($US/bbl)	77.17	42.66	81	67.96	39.40	72
MSW Edmonton ($/bbl)	93.26	50.64	84	80.33	46.08	74
Average Exchange rate ($US/$CDN)	0.7937	0.7695	3	0.7976	0.7478	7

(1) GJ converted to Mcf on the basis of 1 Mcf = 1.055056 GJ and 1 Mcf = 1 MMbtu.

(2) Average realized prices in this table are considered specified financial measures which may not be comparable to similar specified financial measures used by other entities. Please see "Specified Financial Measures".

Liquids

Advantage's realized liquids price excluding derivatives for the three months and year ended December 31, 2021 was $70.91/bbl and $61.50/bbl, respectively, increases of 89% and 86% compared to the same periods of the prior year. Realized crude oil, condensate and NGL prices excluding derivatives all increased significantly for the three months and year ended December 31, 2021, due to significantly improved WTI prices, with continued global economic recovery from the COVID-19 pandemic demand reduction. The price that Advantage receives for crude oil and condensate production is largely driven by global supply and demand and the Edmonton light sweet oil and condensate price differentials. Approximately 64% of our liquids production is comprised of crude oil, condensate and pentanes, which generally attracts higher market prices than other NGLs.

Natural gas

Advantage's realized natural gas price excluding derivatives for the three months and year ended December 31, 2021 was $5.44/Mcf and $3.97/Mcf, respectively, which was a 104% increase and an 84% increase compared to the same periods of the prior year. These increases were attributed to higher natural gas benchmark prices in all markets where Advantage physically delivers natural gas and has market diversification exposure. Advantage has realized natural gas prices higher than AECO as we currently also have market exposure at Dawn, Empress, Emerson, Chicago and Ventura.

Commodity Prices and Marketing (continued)

Advantage's natural gas exposure consists of the AECO, Empress, Emerson, Dawn, Chicago and Ventura markets. Advantage holds physical transportation beyond AECO to Empress, Emerson and Dawn, incurring additional transportation expense to deliver production to these markets (see "Transportation Expense"). Our Chicago and Ventura contracts are netback arrangements where the Corporation incurs a fixed differential with the net amount being recorded to revenue.

The following table outlines the Corporation's 2022 forward-looking natural gas market exposure, and 2021 actual natural gas market exposure, excluding hedging.

	2022[(2)]		2021	
Sales Markets	**Effective production (MMcf/d)[(1)]**	**Percentage of Natural Gas Production (%)**	**Effective production (MMcf/d)[(1)]**	**Percentage of Natural Gas Production (%)**
AECO	132.6	46	101.6	38
Empress	43.1	15	25.3	9
Emerson	4.5	2	6.7	2
Dawn	75.1	26	72.8	27
Chicago	17.1	6	48.3	18
Ventura	15.0	5	15.0	6
Total	**287.4[(3)]**	**100**	**269.7**	**100**

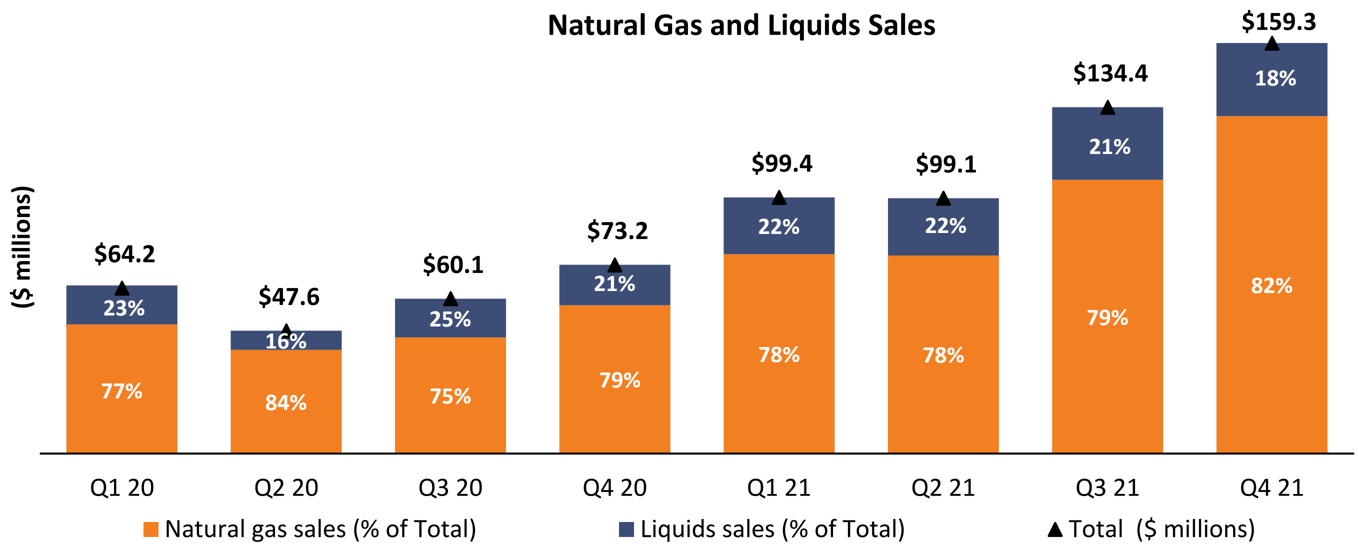
(1) All volumes contracted converted to Mcf on the basis of 1 Mcf = 1.055056 GJ and 1 Mcf = 1 MMbtu.

(2) Natural gas market exposure based on contracts in-place at December 31, 2021.

(3) Represents the midpoint of our 2022 guidance for natural gas production volumes (see New Release dated December 6, 2021).

Natural gas and liquids sales

($000, except as otherwise indicated)	Three months ended December 31 2021	2020	% Change	Year ended December 31 2021	2020	% Change
Crude oil	6,823	7,134	(4)	31,209	23,096	35
Condensate	8,940	3,020	196	25,226	12,085	109
NGLs	12,629	5,558	127	44,423	18,080	146
Liquids	28,392	15,712	81	100,858	53,261	89
Natural gas	130,863	57,491	128	391,177	191,824	104
Natural gas and liquids sales	**159,255**	**73,203**	**118**	**492,035**	**245,085**	**101**
per boe	**36.11**	**18.28**	**98**	**27.26**	**14.91**	**83**



Natural gas and liquids sales for the three months and year ended December 31, 2021, increased by $86.1 million or 118% and $247.0 million or 101%, respectively, compared to the same corresponding periods of 2020.

For the year ended December 31, 2021, natural gas sales increased by $199.4 million or 104%, compared to 2020, due to an 84% increase in realized gas prices (see “Commodity Prices and Marketing”), accompanied with an 11% increase in natural gas production volumes (see “Production”). Liquids sales increased by $47.6 million, or 89%, due to an 86% increase in realized liquids prices (see “Commodity Prices and Marketing”), accompanied with a 2% increase in liquids production volumes (see “Production”).

For the three months ended December 31, 2021, natural gas sales increased by $73.4 million or 128%, compared to the corresponding period in 2020, due to a 104% increase in realized gas prices (see “Commodity Prices and Marketing”), accompanied with a 12% increase in natural gas production volumes (see “Production”). Fourth quarter liquids sales increased by $12.7 million, or 81%, due to an 88% increase in realized liquids prices (see “Commodity Prices and Marketing”), offset by a 4% decrease in liquids production volumes (see “Production”).

Financial Risk Management

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

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. A summary of realized and unrealized derivative gains and losses for the three months and year ended December 31, 2021, and 2020 are as follows:

	Three months ended December 31		Year ended December 31	
	2021	**2020**	**2021**	**2020**
Realized gains (losses) on derivatives				
Natural gas	(30,646)	(4,805)	(58,909)	(12,148)
Crude oil	(6,489)	1,532	(17,353)	7,121
Foreign exchange	218	475	2,368	696
Interest rate	(171)	(151)	(684)	(309)
Total	**(37,088)**	**(2,949)**	**(74,578)**	**(4,640)**
Unrealized gains (losses) on derivatives				
Natural gas	49,607	27,023	16,480	1,354
Crude oil	5,831	(4,097)	2,074	(776)
Natural gas embedded derivative	28,957	3,394	54,305	3,394
Foreign exchange	(67)	1,942	(4,525)	3,015
Interest rate	171	39	666	(802)
Total	**84,499**	**28,301**	**69,000**	**6,185**
Gains (losses) on derivatives				
Natural gas	18,961	22,218	(42,429)	(10,794)
Crude oil	(658)	(2,565)	(15,279)	6,345
Natural gas embedded derivative	28,957	3,394	54,305	3,394
Foreign exchange	151	2,417	(2,157)	3,711
Interest rate	-	(112)	(18)	(1,111)
Total	**47,411**	**25,352**	**(5,578)**	**1,545**

Financial Risk Management (continued)

Natural gas

For the three months and year ended December 31, 2021, Advantage realized net losses on natural gas derivatives of $30.6 million and $58.9 million, respectively, due to the settlement of contracts with average derivative contract prices that were below average market prices. During the year ended December 31, 2021, the Corporation took advantage of periods of significant widening of the AECO/Henry Hub basis and unwound positions of the Corporation's AECO/Henry Hub differential basis swaps for proceeds of $1.1 million. The Corporation would have incurred an additional $0.5 million in realized losses for the year ended December 31, 2021 if the positions were not unwound.

For the three months and year ended December 31, 2021, Advantage recognized a net unrealized gain on natural gas derivatives of $49.6 million and $16.5 million, respectively. For the three months and year ended December 31, 2021, the change in the fair value of our outstanding derivative contracts was due to the Corporation prudently unwinding a portion of our AECO/Henry Hub basis differential contracts, accompanied with the timing of 2021 fixed AECO and Henry Hub contracts concluding, while entering new Henry Hub fixed contracts at increased prices.

Crude oil

For the three months and year ended December 31, 2021, Advantage realized net losses on crude oil derivatives of $6.5 million and $17.4 million, respectively, due to the settlement of contracts with average derivative contract prices that were below average market prices as a result of the increase in WTI prices in 2021. For the three months and year ended December 31, 2021, Advantage recognized a net unrealized gain on crude oil derivatives of $5.8 million and $2.1 million, respectively. The increased valuation of our crude oil derivative contracts is due to timing of 2021 contracts concluding, while entering new crude oil contracts that have increased fixed WTI prices.

Natural gas embedded derivative

During the year ended December 31, 2020, Advantage entered into a long-term 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 power 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 have unrealized gain (losses) on the embedded derivative based on movements in the forward curve for PJM power prices. The Corporation will not have realized gains (losses) on the embedded derivative until the Corporation begins delivering natural gas in 2023. For the year ended December 31, 2021, the Corporation's embedded derivative resulted in an unrealized gain on the natural gas embedded derivative of $54.3 million as a result of strengthening PJM power prices.

Foreign exchange

For the three months and year ended December 31, 2021, Advantage realized a gain on foreign exchange derivatives of $0.2 million and $2.4 million, respectively, while recognizing an unrealized loss of $2.2 million. The $2.2 million unrealized loss is a result of the value of the Canadian dollar being higher than the Corporation's average hedged foreign exchange rate position at December 31, 2021.

Interest rate

For the three months and year ended December 31, 2021, Advantage realized losses on interest rate derivatives of $0.2 million and $0.7 million, respectively, while recognizing unrealized gains of $0.2 million and $0.7 million, respectively. The $0.7 million unrealized gain is a result of interest rates being lower than the Corporation's average hedged interest rate position at December 31, 2021.

Financial Risk Management (continued)

The fair value of derivative assets and liabilities is the estimated value to settle the outstanding contracts as at a point in time. As such, unrealized derivative gains and losses do not impact adjusted funds flow and the actual gains and losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices, foreign exchange rates and interest rates as compared to the valuation assumptions. Remaining derivative contracts will settle between January 1, 2022 and December 31, 2024, apart from the Corporation's natural gas embedded derivative which is expected to be settled between the years 2023 and 2033.

As at December 31, 2021 and February 24, 2022, the Corporation had the following commodity, interest rate and foreign exchange 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	November 2022 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

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%
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.

Royalty Expense

	Three months ended December 31		%	Year ended December 31		%
	2021	2020	Change	2021	2020	Change
Royalty expense ($000)	8,928	3,067	191	27,530	10,474	163
per boe	2.02	0.77	162	1.53	0.64	139
Royalty rate (%)[1]	5.6	4.2	1.4	5.6	4.3	1.3

[1] Percentage of natural gas and liquids sales.

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

Royalty expense for the three months and year ended December 31, 2021 increased by $5.9 million and $17.1 million, respectively, increases of 191% and 163%. The increase in royalty expense for each period was largely due to higher natural gas royalties from the significant increase in AECO natural gas prices.

Operating Expense

	Three months ended December 31		%	Year ended December 31		%
	2021	2020	Change	2021	2020	Change
Operating expense ($000)	12,870	10,750	20	44,893	40,005	12%
per boe	2.92	2.68	9	2.49	2.43	2%

Operating expense for the three months and year ended December 31, 2021 increased by $2.1 million and $4.9 million, respectively, increases of 20% and 12%. For the three months ended December 31, 2021, the Corporation had an increase in operating expense largely due to the 10% increase in total production and additional cost required to maintain production and infrastructure during the period of severe cold weather that occurred in the quarter. For the year ended December 31, 2021, operating expense increased relative to the 10% increase in total production, as there were no significant changes in operating expense per boe when compared to 2020.

Advantage expects 2022 annual operating expense per boe to remain consistent at $2.45/boe (see "Corporate Update").

Transportation Expense

	Three months ended December 31		%	Year ended December 31		%
	2021	**2020**	**Change**	**2021**	**2020**	**Change**
Natural gas ($000)	18,019	13,266	36	64,876	49,414	31
Liquids ($000)	1,749	1,222	43	5,564	6,403	(13)
Total transportation expense ($000)	**19,768**	**14,488**	**36**	**70,440**	**55,817**	**26**
per boe	4.48	3.62	24	3.90	3.39	15

Transportation expense represents the cost of transporting our natural gas and liquids production to the sales points, including associated fuel costs. Transportation expense for the three months and year ended December 31, 2021 increased by $5.3 million and $14.6 million, respectively, increases of 36% and 26%. The increase in transportation expense for both periods was largely due to the Corporation having additional transportation associated with physical deliveries to Dawn, Empress and Emerson that began in November of 2020, accounting for $12.0 million of the yearly increase in natural gas transportation when compared to 2020. (see “Commodity Prices and Marketing”). Production transported to these markets generally results in premium realized prices as experience by the Corporation in 2021. In addition, the Corporation also incurred higher NGTL fuel costs tied to the increase in AECO, accounting for $2.9 million of the yearly increase when compared to 2020.

Advantage expects 2022 annual transportation expense per boe to increase to $4.35/boe (see “Corporate Update”), largely due expected NGTL toll increases, accompanied with additional firm Empress service beginning in April 2022.

Operating Netback

	Three months ended December 31			
	2021		**2020**	
	$000	**per boe**	**$000**	**per boe**
Natural gas and liquids sales	159,255	36.11	73,203	18.28
Realized losses on derivatives	(37,088)	(8.41)	(2,949)	(0.74)
Royalty expense	(8,928)	(2.02)	(3,067)	(0.77)
Operating expense	(12,870)	(2.92)	(10,750)	(2.68)
Transportation expense	(19,768)	(4.48)	(14,488)	(3.62)
Operating netback [(1)]	**80,601**	**18.28**	**41,949**	**10.47**

	Year ended December 31			
	2021		**2020**	
	$000	**per boe**	**$000**	**per boe**
Natural gas and liquids sales	492,035	27.26	245,085	14.91
Realized losses on derivatives	(74,578)	(4.13)	(4,640)	(0.28)
Royalty expense	(27,530)	(1.53)	(10,474)	(0.64)
Operating expense	(44,893)	(2.49)	(40,005)	(2.43)
Transportation expense	(70,440)	(3.90)	(55,817)	(3.39)
Operating netback [(1)]	**274,594**	**15.21**	**134,149**	**8.17**

(1) Specified financial measure which may not be comparable to similar specified financial measures used by other entities. Please see "Specified Financial Measures ".

Operating Netback (continued)

For the three months and year ended December 31, 2021, Advantage's operating netback increased by 92% and 105%, respectively, or $7.81/boe and $7.04/boe. The increase in the Corporation's operating netback per boe for both periods was primarily due to the increase in natural gas and liquids sales as a result of significantly increased natural gas and crude oil benchmark prices (see "Commodity Prices and Marketing"). This increase was partially offset by realized losses on derivatives similarly due to significantly increased natural gas and crude oil benchmark prices (see "Financial Risk Management").

General and Administrative Expense

	Three months ended December 31		%	Year ended December 31		%
	2021	2020	Change	2021	2020	Change
General and administrative expense ($000)	4,940	4,416	12	19,860	11,315	76
per boe	1.12	1.10	2	1.10	0.69	59
Employees at December 31				42	39	8

General and administrative ("G&A") expense for the three months and year ended December 31, 2021 increased by $0.5 million and $8.5 million, respectively, increases of 12% and 75%. For the year ended December 31, 2021, the Corporation's G&A increased primarily due to the higher valuation of the Deferred Share Units liability included in G&A which is revalued each reporting period, accounting for $4.1 million of the G&A increase when compared to 2020 as a result of the 333% increase in share price. Additionally, Advantage had an increase of $1.9 million in G&A expense incurred under the cash-based performance award incentive plan when compared to 2020 (see "Share-based Compensation"). The remaining G&A increase is primarily a result of increased staffing levels in 2021.

Share-based Compensation

	Three months ended December 31		%	Year ended December 31		%
	2021	2020	Change	2021	2020	Change
Share-based compensation ($000)	1,761	1,973	(11)	6,104	8,108	(25)
Capitalized ($000)	(561)	(689)	(19)	(2,051)	(2,830)	(28)
Share-based compensation expense ($000)	**1,200**	**1,284**	**(7)**	**4,053**	**5,278**	**(23)**
per boe	0.27	0.32	(16)	0.22	0.32	(31)

The Corporation's long-term compensation plan to employees consists of a balanced approach between a cash-based performance award incentive plan (see "General and Administrative Expense") and a share-based Restricted and Performance Award Incentive Plan. Under the Corporation's restricted and performance award incentive plan, Performance Share Units are granted to service providers of Advantage which cliff vest after three years from grant date. Capitalized share-based compensation is attributable to personnel involved with the development of the Corporation's capital projects.

The Corporation recognized $1.2 million and $4.1 million of share-based compensation expense during the three months and year ended December 31, 2021, respectively, and capitalized $0.6 million and $2.1 million, respectively. For the year ended December 31, 2021, total share-based compensation decreased by 25%, as a result of current grants of long-term compensation being balanced between 50% Performance Share Units and 50% Performance Awards (see "General and Administrative Expense") rather than entirely share-based compensation. Additionally, in the second quarter of 2021, certain Performance Share Units were settled in cash as opposed to common shares, resulting in a reclassification between share-based compensation and G&A of approximately $0.7 million.

Finance Expense

	Three months ended December 31		%	Year ended December 31		%
	2021	2020	Change	2021	2020	Change
Cash finance expense ($000)	4,434	5,795	(24)	19,910	18,173	10
per boe	1.01	1.45	(30)	1.10	1.11	(1)
Accretion expense ($000)	251	225	(12)	1,108	797	39
Total finance expense ($000)	**4,685**	**6,020**	**(22)**	**21,018**	**18,970**	**11**
per boe	1.06	1.50	(29)	1.16	1.15	1

Advantage realized lower cash finance expense during the three months ended December 31, 2021 as a result of decreased average outstanding bank indebtedness when compared to the same period in 2020. Advantage's bank indebtedness interest rates are primarily based on short-term bankers' acceptance rates plus a stamping fee and determined by net debt to the trailing four quarters Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio as calculated pursuant to our Credit Facilities. Advantage realized higher cash finance expense during the year ended December 31, 2021, due to the 15-year volume commitment agreement in the Glacier Gas Plant which is treated as a financing transaction. Payments relating to the financing liability began July 1, 2020, and the Corporation incurred $8.8 million in interest expense associated with these payments for the year ended December 31, 2021.

The Corporation's Credit Facilities are exposed to interest rate risk. Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Management has been proactive in entering into interest rate derivative contracts for the purposes of reducing the volatility of interest. The Corporation has a $175 million notional amount of fixed interest rate swaps covering April 2020 to March 2022 at a weighted average fixed rate of 0.81%. See "Financial Risk Management" for a summary of realized and unrealized interest rate derivative gains and losses.

Depreciation and Impairment Expense (Recovery)

	Three months ended December 31		%	Year ended December 31		%
	2021	2020	Change	2021	2020	Change
Depreciation expense ($000)	25,998	25,224	3	106,786	110,896	(4)
per boe	5.89	6.30	(7)	5.92	6.74	(12)
Impairment expense (recovery) ($000)	(340,653)	-	nm	(340,653)	361,000	nm

The decrease in depreciation expense during 2021 was attributable to a lower net book value associated with the Corporation's natural gas and liquids properties subsequent to booking an impairment in the first quarter of 2020, offset by increased production in 2021 (see "Production).

For the three months ended December 31, 2021, the Corporation identified an indicator of impairment recovery as a result of a recovery in forward commodity prices for natural gas and crude oil. The Corporation performed an impairment reversal test on the Corporation's previously impaired Greater Glacier ("Cash Generating Unit") CGU using after-tax discounted future cash flows of proved and probable reserves, utilizing a discount rate of 10%, which resulted in a full impairment recovery of $340.7 million (net of depreciation).

Taxes

	Three months ended December 31		%	Year ended December 31		%
	2021	2020	Change	2021	2020	Change
Income tax expense (recovery) ($000)	108,890	9,138	nm	121,092	(83,270)	nm
Effective tax rate (%)	23.2	27.4		22.7	22.7	

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the year ended December 31, 2021, the Corporation recognized a deferred income tax expense of $121.1 million. The expense for the year ended December 31, 2021 is a result of generating income before taxes and non-controlling interest of $411.4 million which was largely driven by the $340.7 million impairment recovery recognized in the fourth quarter. As at December 31, 2021, the Corporation had a deferred income tax liability of $96.3 million.

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

($ millions)	
Canadian development expenses	199.9
Canadian exploration expenses	68.0
Canadian oil and gas property expenses	12.8
Non-capital losses	727.6
Undepreciated capital cost	213.4
Capital losses	146.6
Scientific research and experimental development expenditures	32.6
Other	6.5
	1,407.4

Net Income (Loss) and Comprehensive Income (Loss) attributable to Advantage shareholders

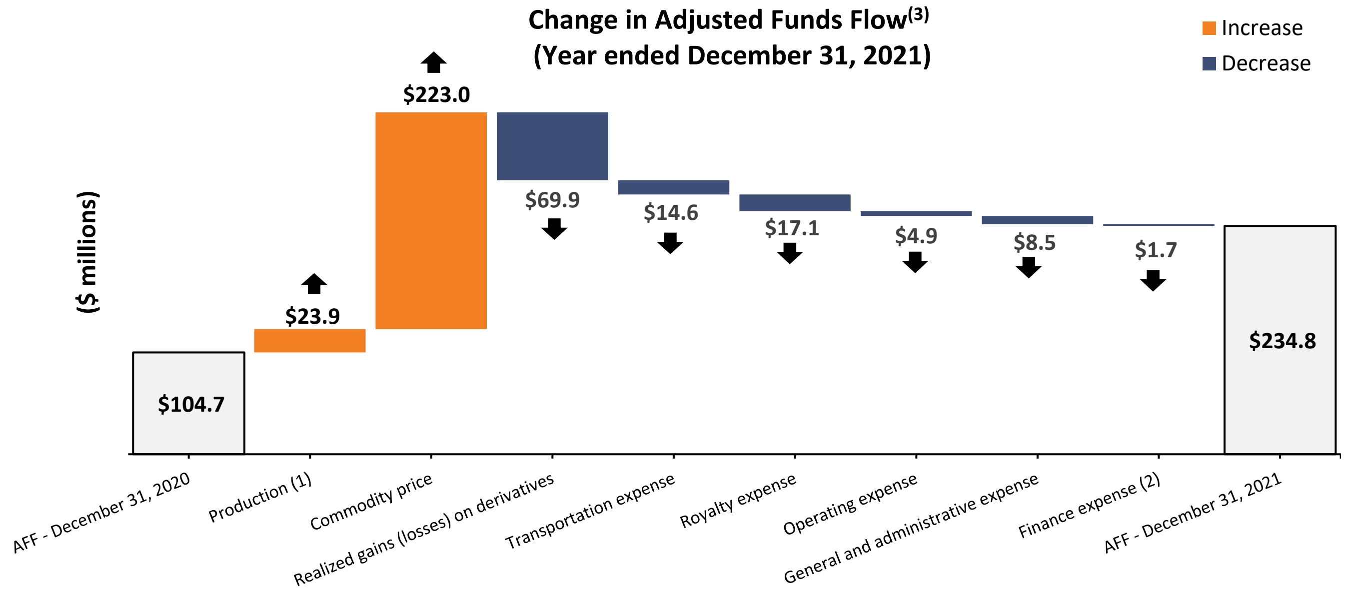
	Three months ended December 31		%	Year ended December 31		%
	2021	2020	Change	2021	2020	Change
Net income (loss) and comprehensive income (loss) attributable to Advantage shareholders ($000)	360,035	24,168	nm	411,523	(284,045)	nm
per share - basic	1.90	0.13	nm	2.17	(1.51)	nm
per share - diluted	1.81	0.12	nm	2.07	(1.51)	nm

Advantage recognized net income attributable to Advantage shareholders of $360.0 million and $411.5 million for the three months and year ended December 31, 2021, respectively. For the year ended December 31, 2021, net income and comprehensive income attributable to Advantage shareholders was higher when compared to 2020 largely due to the non-cash impairment recovery of $340.7 million offset by a deferred tax expense of $121.1 million. Additionally, the Corporation had increased unrealized gains on derivatives compared to the same periods of 2020 due to the increase in the embedded derivative (see "Financial Risk Management ").

Cash Provided by Operating Activities and Adjusted Funds Flow ("AFF")

($000, except as otherwise indicated)	Three months ended December 31 2021	2020	Year ended December 31 2021	2020
Cash provided by operating activities	**67,464**	**30,260**	**223,152**	**100,714**
Expenditures on decommissioning liability	253	610	1,033	1,080
Changes in non-cash working capital	3,510	868	10,639	2,867
Adjusted funds flow (1)	**71,227**	**31,738**	**234,824**	**104,661**
Adjusted funds flow per boe (1)	16.15	7.92	13.01	6.37
Adjusted funds flow per share (1)	0.37	0.17	1.24	0.56

(1) Specified financial measure which may not be comparable to similar specified financial measures used by other entities. Please see "Specified Financial Measures".



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

(2) Finance expense excludes accretion of decommissioning liability.

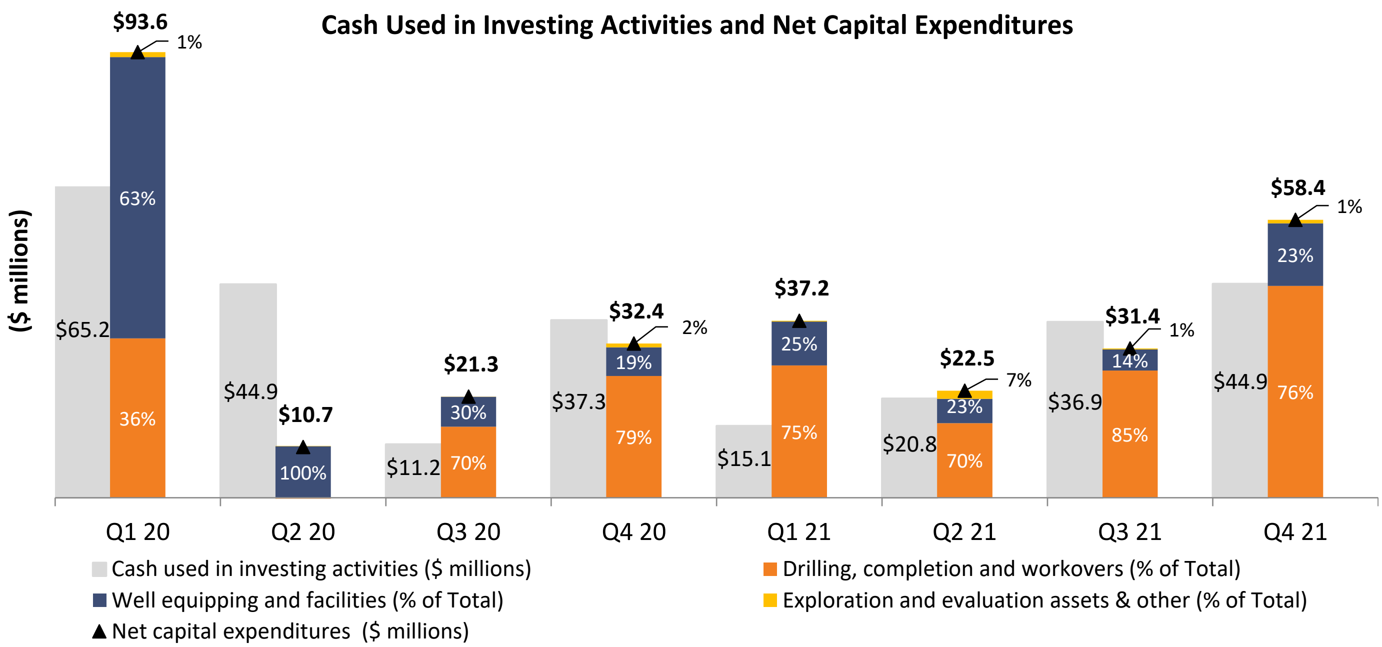
(3) Specified financial measure which may not be comparable to similar specified financial measures used by other entities. Please see "Specified Financial Measures".

For the three months and year ended December 31, 2021, Advantage realized cash provided by operating activities of $67.5 and $223.2 million, respectively, increases of $37.2 million and $122.4 million when compared to the same periods of 2020. After adjusting for or non-cash changes in working capital and expenditures on decommissioning liability, the Corporation realized adjusted funds flow of $71.2 million and $234.8 million, increases of $39.5 million and $130.2 million when compared to the same periods of 2020. The increase in cash provided by operating activities and adjusted funds flow for the three months and year ended December 31, 2021 was largely due to the increase in natural gas and liquids sales as a result of both significantly higher natural gas and crude oil benchmark prices and increased total production (see "Commodity Prices and Marketing" and "Production"). This increase was partially offset by increased realized losses on derivatives (see "Financial Risk Management").

Cash Used in Investing Activities and Net Capital Expenditures

($000)	Three months ended December 31 2021	Three months ended December 31 2020	Year ended December 31 2021	Year ended December 31 2020
Drilling, completion and workovers	44,509	25,584	114,697	73,768
Well equipping and facilities	13,132	5,998	31,912	82,213
Property acquisitions	72	-	1,545	-
Other	22	778	81	971
Expenditures on property, plant and equipment	57,735	32,360	148,235	156,952
Expenditures on exploration and evaluation assets	323	30	677	983
Expenditures on intangible assets	326	-	491	-
Net capital expenditures [1]	**58,384**	**32,390**	**149,403**	**157,935**
Changes in non-cash working capital	(13,431)	4,935	(11,564)	686
Project funding received	(14)	-	(20,057)	-
Cash used in investing activities	**44,939**	**37,325**	**117,782**	**158,621**

[1] Specified financial measure which may not be comparable to similar specified financial measures used by other entities. Please see "Specified Financial Measures".



Advantage invested $58.4 million and $149.4 million on property, plant, and equipment, exploration and evaluation assets and intangible assets during the three months and year ended December 31, 2021. On August 31, 2021, Advantage announced an increase in our 2021 capital program by $20 million to a guidance range of $140 million to $150 million (see New Release dated August 31, 2021). The additional capital optimized fourth quarter 2021 operational continuity and is delivering higher production into the winter markets.

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

Advantage continued its focus on natural gas development at Glacier and natural gas and liquids development at Valhalla through much of 2021, with the drilling program shifting to oil development in Wembley during the fourth quarter of 2021.

<u>Glacier</u>

Advantage's foundational Glacier gas property has been the focus of our 2021 capital program with 20 gross (17.4 net) wells drilled and 27 gross (24.4 net) wells completed. Drilling performance resulted in the average time from spud to rig release being 9.1 days. Well performance has also been exceptional with the 22 gross (21.4 net) wells placed on production in 2021 achieving an average, peak IP30 rate of 9840 Mcf/d, despite being choked back to minimize erosional risks and impacts on existing wells.

<u>Valhalla</u>

Advantage drilled 2 gross (2.0 net) wells in Valhalla during 2021. These wells were completed and brought on production during the third quarter. The wells initial 30-day average production rates were 2,410 boe/d (consisting of 10.3 MMcf/d natural gas and 693 bbls/d condensate) and 1,995 boe/d (consisting of 9.4 MMcf/d natural gas, 426 bbls/d condensate), at 29% and 21% liquids, respectively (raw volumes measured at wellsite separator). Both wells are flowing through Advantage infrastructure to our Glacier facility. The wells confirm Management's view that the Valhalla asset will play a critical role in the Corporation's liquids-rich gas development plan.

<u>Wembley/ Progress</u>

At Wembley, development of this oil-weighted property resumed in the fourth quarter of 2021 and continues in the first quarter of 2022. Six wells being drilled will be completed during first quarter of 2022 and placed on production in the second quarter of 2022.

<u>Corporate</u>

In the first half of 2021, Advantage closed two complementary asset acquisitions consisting of 12.4 net sections of highly prospective Doig/Montney rights contiguous to our existing land base. This increases our Doig/Montney land position to 228 net sections (145,920 net acres) and enhances our inventory of drill locations for gas and liquids-rich wells. The acquisitions were facilitated by Advantage's dominant infrastructure position in the area. Total production of the assets was 130 boe/d (0.8 MMcf/d natural gas and 5 bbls/d NGLs), which was already tied into Advantage's Glacier Gas Plant.

As of December 31, 2021, Advantage has incurred $20 million of cost related to the construction of the Phase 1 CCS project which was offset by funding from the Government of Alberta's *Industrial Energy Efficiency and Carbon Capture Utilization and Storage Program*.

<u>Entropy Inc.</u>

During the year, Entropy incurred $0.5 million in net capital expenditures related to the Corporation's technology development program at the University of Regina's Clean Energy Technologies Research Institute for the development and testing of proprietary carbon capture solvents.

Commitments and Contractual Obligations

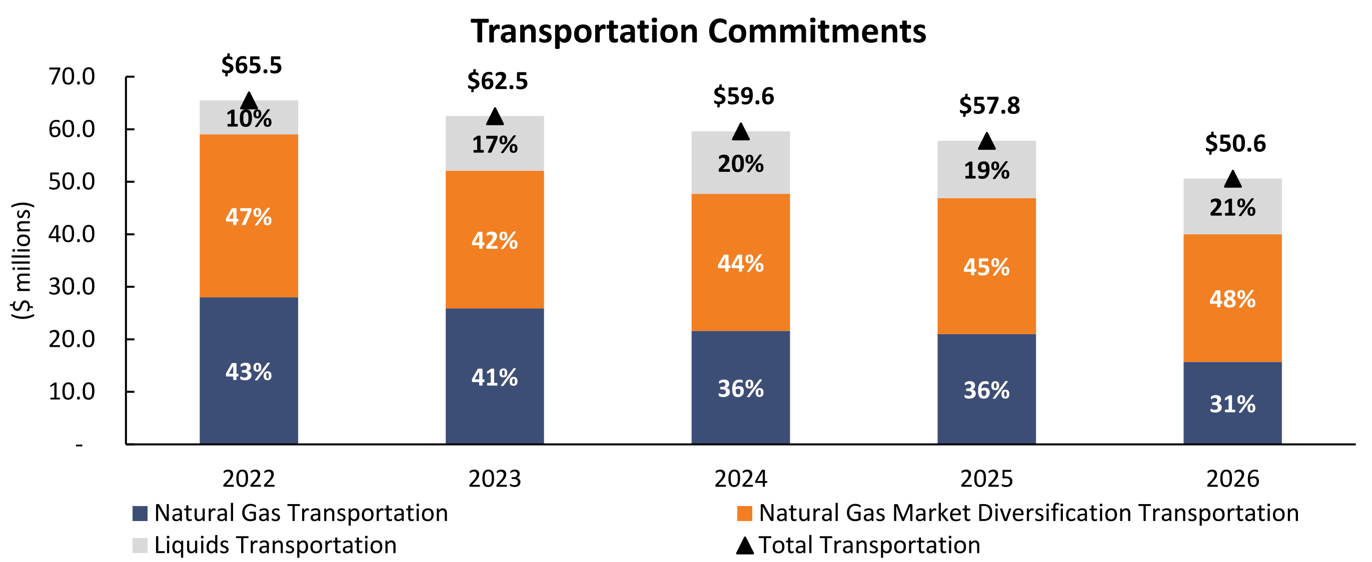
The Corporation has commitments and contractual obligations in the normal course of operations. Such commitments include operating costs for our head office lease, natural gas processing costs associated with third-party facilities, and transportation costs for delivery of our natural gas and liquids (crude oil, condensate and NGLs) production to sales points. Although such commitments are required to ensure our production is delivered to sales markets, Advantage actively manages our portfolio of commitments in conjunction with our future development plans and to ensure we are properly diversified to multiple markets. Contractual obligations comprise those liabilities to third parties incurred for the purpose of financing Advantage's business and development, including our bank indebtedness.

The following table is a summary of the Corporation's remaining commitments and contractual obligations. Advantage has no guarantees or off-balance sheet arrangements other than as disclosed.

	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**
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
Bank indebtedness (2)							
- principal	168.0	-	168.0	-	-	-	-
- interest	6.2	5.0	1.2	-	-	-	-
Total contractual obligations	**356.4**	**23.0**	**187.6**	**18.2**	**12.4**	**12.4**	**102.8**
Total future payments	**873.3**	**94.8**	**258.4**	**88.2**	**80.1**	**70.4**	**281.4**

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

(2) As at December 31, 2021 the Corporation's bank indebtedness was governed by a credit facility agreement with a syndicate of financial institutions. Under the terms of the agreement, the facility is reviewed semi-annually, with the next review scheduled in May 2022. The facility is revolving and extendible at each annual review for a further 364-day period at the option of the syndicate. If not extended, the credit facility is converted at that time into a one-year term facility, with the principal payable at the end of such one-year term.



Liquidity and Capital Resources

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

($000, except as otherwise indicated)	**Year ended December 31, 2021**	**Year ended December 31, 2020**
Bank indebtedness (non-current)	167,345	247,105
Working capital (surplus) deficit (1)	(2,092)	4,292
Net debt (1)	**165,253**	**251,397**
Shares outstanding	190,828,976	188,112,797
Shares closing market price ($/share)	7.41	1.71
Market capitalization	**1,414,043**	**321,673**
Total capitalization	**1,579,296**	**573,070**
Net debt to adjusted funds flow ratio (1)	**0.7**	**2.4**

(1) Specified financial measure which may not be comparable to similar specified financial measures used by other entities. Please see "Specified Financial Measures".

As at December 31, 2021, Advantage had a $350 million Credit Facility of which $171.2 million or 49% was available after deducting letters of credit of US$9 million outstanding (see "Bank Indebtedness, Credit Facilities and Other Liabilities"). The Corporation's adjusted funds flow was utilized to fund our capital expenditure program of $149.4 million and decrease bank indebtedness by $79.8 million with a net debt to adjusted funds flow ratio of 0.7 times. Advantage continues to be focused on strengthening the balance sheet, maintaining a disciplined commodity risk management program, and increasing available liquidity such that it is well positioned to continue successfully executing its multi-year development plan. Additionally, Advantage has experienced a significant increase in its market capitalization during 2021 when compared to December 31, 2020, which provides the Corporation flexibility in managing its capital structure.

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

Bank Indebtedness, Credit Facilities and Other Liabilities

As at December 31, 2021, Advantage had bank indebtedness outstanding of $167.3 million, a decrease of $79.8 million since December 31, 2020. Advantage's Credit Facilities have a borrowing base of $350 million that is collateralized by a $1 billion floating charge demand debenture covering all assets of the Corporation and has no financial covenants (the "Credit Facilities"). Under the Credit Facilities, the Corporation must ensure at all times that its Liability Management Rating ("LMR") as determined by the AER is not less than 2.0. The borrowing base for the Credit Facilities is determined by the banking syndicate through an evaluation of our reserve estimates based upon their independent 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 November 2021, the semi-annual redetermination of the Credit Facilities borrowing base was completed with no changes to the borrowing base of $350 million, comprised of a $30 million extendible revolving operating loan facility from one financial institution and a $320 million extendible revolving loan facility from a syndicate of financial institutions. The next annual review is 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.

Advantage had a working capital surplus of $2.1 million as at December 31, 2021, an increase in the surplus of $6.4 million compared to December 31, 2020 due to increased receivables tied to higher commodity prices and differences in the timing of capital expenditures and related payments. Our working capital includes cash and cash equivalents, trade and other receivables, prepaid expenses and deposits, trade and other accrued liabilities. Working capital varies primarily due to the timing of such items, the current level of business activity including our capital expenditure program, commodity price volatility, and seasonal fluctuations. We do not anticipate any problems in meeting future obligations as they become due as they can be satisfied with cash provided by operating activities and our available Credit Facilities.

In 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 make fixed payments to the purchaser over the course of the 15-year term. The effective interest rate associated with the financing transaction is 9.1%. For the year ended December 31, 2021, the Corporation made cash payments of $12.0 million (December 31, 2020 - $6.1 million) under the take-or-pay volume commitment agreement.

In the first quarter of 2021, the Corporation received a $20.0 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. As at December 31, 2021, Advantage has incurred $20.0 million in eligible expenditures on the Phase 1 CCS project, which is expected to be completed by the second quarter of 2022.

As at December 31, 2021, Advantage had a decommissioning liability of $62.5 million (December 31, 2020 – $60.9 million) for the future abandonment and reclamation of the Corporation's natural gas and liquids properties. The decommissioning liability includes assumptions in respect of actual costs to abandon and reclaim wells and facilities, the time frame in which such costs will be incurred, annual inflation factors and discount rates. 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), with 56% of these costs to be incurred beyond 2050. Actual spending on decommissioning for the year ended December 31, 2021 was $1.0 million (December 31, 2020 – $1.1 million). Advantage continues to maintain an industry leading LMR of 25.6, demonstrating that the Corporation has no issues addressing its abandonment, remediation, and reclamation obligations.

Non-controlling interest ("NCI")

At December 31, 2020, Advantage owned 100% of Entropy Inc., a private corporation engaged in commercializing energy-transition technologies.

On May 5, 2021, Entropy issued common shares to Advantage and Allardyce Bower Holdings Inc. ("ABC") in exchange for intangibles and intellectual property, resulting in Advantage and ABC owning 90% and 10% of Entropy, respectively. Advantage consolidates 100% of Entropy and has recognized a non-controlling interest in shareholders' equity, representing the carrying value of the 10% shareholding of Entropy held by outside interests. ABC's contribution of intellectual property to Entropy resulted in the recognition of an intangible asset of $2.5 million.

For the year ended December 31, 2021, the net loss and comprehensive loss attributed to non-controlling interest was $0.2 million (December 31, 2020 - nil).

Shareholders' Equity

As at December 31, 2021, a total of 4.9 million Performance Share Units were outstanding under the Restricted and Performance Award Incentive Plan, which represents 2.6% of Advantage's total outstanding common shares. As at February 24, 2022, Advantage had 190.8 million common shares outstanding.

Annual Financial Information

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

	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2019
Total sales ($000) [1]	492,035	245,085	251,279
Net income (loss) ($000)	411,354	(284,045)	(24,654)
Per share - basic	2.17	(1.51)	(0.13)
Per share - diluted	2.07	(1.51)	(0.13)
Total assets ($000)	1,994,990	1,533,709	1,818,454
Long-term financial liabilities ($000) [2]	260,833	343,969	295,624

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

(2) Long-term financial liabilities are comprised of bank indebtedness and financing liability.

Quarterly Performance

	2021				2020			
($000, except as otherwise indicated)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial Statement Highlights								
Natural gas and liquids sales	159,255	134,354	99,053	99,373	73,203	60,063	47,634	64,185
Net income (loss) and comprehensive income (loss)	359,956	43,098	8,725	(425)	24,168	(21,606)	(20,088)	(266,519)
per basic share [(2)]	1.90	0.23	0.04	0.00	0.13	(0.11)	(0.11)	(1.43)
Basic weighted average shares (000)	190,829	190,829	190,501	188,113	188,113	188,113	187,901	186,911
Cash provided by operating activities	67,464	46,988	57,134	51,566	30,260	25,271	24,357	20,826
Cash provided by (used in) financing activities	(27,423)	(26,960)	(21,480)	(7,548)	5,071	(15,436)	23,492	34,960
Cash used in investing activities	(44,939)	(36,940)	(20,834)	(15,069)	(37,325)	(11,220)	(44,855)	(65,221)
Other Financial Highlights								
Adjusted funds flow [(1)]	71,227	63,353	46,266	53,978	31,738	23,571	17,259	32,093
per boe [(1)]	16.15	13.77	10.17	12.04	7.92	5.76	4.19	7.59
per basic share [(1)(2)]	0.37	0.33	0.24	0.29	0.17	0.13	0.09	0.17
Net capital expenditures [(1)]	58,384	31,352	22,482	37,185	32,390	21,252	10,663	93,630
Free cash flow [(1)]	12,843	32,001	23,784	16,793	(652)	2,319	6,596	(61,537)
Working capital (surplus) deficit [(1)]	2,092	(25,891)	(24,520)	(25,924)	4,292	9,093	3,295	34,284
Bank indebtedness	167,345	193,828	219,856	240,428	247,105	241,161	354,199	330,644
Net debt [(1)]	165,253	167,937	195,336	214,504	251,397	250,254	357,494	364,928
Operating Highlights								
Production								
Crude oil (bbls/d)	816	1,038	1,163	1,395	1,653	1,812	2,018	1,172
Condensate (bbls/d)	1,012	1,002	637	721	653	605	627	979
NGLs (bbls/d)	2,524	2,684	2,490	2,493	2,234	2,312	2,001	1,563
Total liquids production (bbls/d)	4,352	4,724	4,290	4,609	4,540	4,729	4,646	3,714
Natural gas (mcf/d)	261,530	271,804	274,328	271,262	233,949	238,315	243,749	256,463
Total production (boe/d)	47,940	50,025	50,011	49,819	43,532	44,448	45,271	46,458
Average prices (including realized derivatives)								
Natural gas ($/mcf)	4.17	3.48	2.81	3.07	2.45	1.81	1.72	2.11
Liquids ($/bbl)	54.70	53.42	56.91	53.20	37.62	34.59	17.56	44.61
Operating Netback ($/boe)								
Natural gas and liquids sales	36.11	29.19	21.76	22.16	18.28	14.69	11.56	15.18
Realized gains (losses) on derivatives	(8.41)	(5.21)	(2.12)	(0.87)	(0.74)	(1.03)	0.23	0.38
Royalty expense	(2.02)	(1.75)	(1.20)	(1.13)	(0.77)	(0.63)	(0.26)	(0.89)
Operating expense	(2.92)	(2.38)	(2.21)	(2.45)	(2.68)	(2.35)	(2.43)	(2.28)
Transportation expense	(4.48)	(3.86)	(3.72)	(3.57)	(3.62)	(3.12)	(3.34)	(3.50)
Operating netback [(1)]	18.28	15.99	12.51	14.14	10.47	7.56	5.76	8.89

(1) Specified financial measure which may not be comparable to similar specified financial measures used by other entities. Please see "Specified Financial Measures".
(2) Based on basic weighted average shares outstanding.

The table above highlights the Corporation’s performance for the fourth quarter of 2021 and for the preceding seven quarters. Production decreased through 2020 associated with prudent capital restraint given the uncertain commodity price environment and the COVID-19 pandemic. Advantage’s second half 2020 capital program was focused on Glacier as natural gas prices strengthened. New natural gas production came onstream late in 2020 due to minor equipment delays impacting the completion of new wells and a third-party facility outage, with production in the first half of 2021 significantly increasing to 50,011 boe/d for the second quarter and remaining steady at 50,025 boe/d for the third quarter of 2021. Production decreased in the fourth quarter of 2021 due to unplanned “firm service” restrictions on TC Energy’s NGTL system.

Quarterly Performance (continued)

Natural gas and liquids sales and adjusted funds flow was impacted by the decrease in commodity prices due to the COVID-19 pandemic which escalated at the end of the first quarter of 2020 and continued through the year. Natural gas and liquids sales and adjusted funds flow increased significantly in the first through fourth quarter of 2021 as a result of increased natural gas production accompanied with strong natural gas benchmark prices. Cash provided by operating activities experienced greater fluctuations than adjusted funds flow due to changes in non-cash working capital, which primarily resulted from the amount and timing of trade payable settlements and accounts receivable collections. The Corporation incurred a large net loss in the first quarter of 2020 due to an impairment charge which was triggered by the COVID-19 pandemic impact on anticipated future commodity prices due to supply and demand outlooks. This impairment charge was recovered in the fourth quarter of 2021, attributed to the significant improvement in commodity prices, resulting in a significant increase to net income in the fourth quarter.

Climate change-related risk and opportunities

Advantage is committed to positive action on emissions reduction. Advantage's Scope 1 and 2 emissions are expected to be reduced by approximately 20% starting in the second quarter of 2022 with the installation of the Phase I CCS equipment at the Glacier Gas Plant with a further 40% reduction once Phase II is complete (planned for mid-2023). Advantage intends to achieve "net zero" Scope 1 and 2 emissions as early as 2025. In order to accomplish this, Advantage's subsidiary Entropy Inc. is pursuing a carbon capture and storage business plan that will result in negative carbon emissions in excess of Advantage's emissions, assuming that appropriate capitalization and commercial agreements are achieved, and that Advantage retains a controlling ownership of Entropy. For further informational on the Corporation's sustainability results and targets, please view our sustainability report on the Corporation's website: https://www.advantageog.com/sustainability.

Capital Expenditures

Advantage has multiple capital projects planned at the Glacier Gas Plant to be constructed through its subsidiary Entropy, that once completed, will lead to the Corporation progressing with its greenhouse gas ("GHG") reduction targets. Phase 1 which is currently under construction is expected to be onstream in the second quarter of 2022 and will reduce the Corporations emissions by approximately 47,000 tonnes CO_2e/year at a capital cost of $27 million. Advantage received a grant of $20 million in 2021 under the Government of Alberta's *Industrial Energy Efficiency and Carbon Capture Utilization and Storage Program* to be used for the construction of the Phase 1 CCS project, with Advantage providing the remaining $7 million of capital.

Phase 2 is expected to be onstream in the second quarter of 2023 and will reduce the Corporations emissions by 136,000 tonnes CO_2e/year at a capital cost estimated at approximately $49 million. Upon completion of Phase 2, Advantage will have achieved a new class of low emissions energy which the Corporation plans to market as "blue natural gas". Entropy is expected to incur the capital cost for the Phase 2 project.

Carbon Emissions Reporting and Taxes

All of Advantage's production is in Alberta and governed by legislation regulating carbon emissions targets, reporting and taxes. Facilities that exceed 100,000 tonnes of GHG emissions annually are subject to various emission regulations under the Technology Innovation and Emissions Reduction Regulation ("TIER") for large industrial emitters. The Glacier Gas Plant has been subject to TIER or predecessor regulations since 2015. Due to our Glacier Gas Plant's emission efficiency relative to other plants and including its carbon capture and sequestration program, we have generated carbon credits every year through 2020 and have incurred minimal payment obligations.

Impact of the COVID-19 Pandemic

Advantage's business and financial condition could be materially and adversely affected by the continuing COVID -19 pandemic. COVID-19 and variant strains of the virus has led to ongoing uncertainty surrounding demand for commodities, leading to volatile prices and currency exchange rates. The Corporation's operations and business are particularly sensitive to a reduction in the demand for, and prices of crude oil, NGLs and natural gas. Additionally, the Corporation's operations may face challenges due to disruptions to global supply chains, labor shortages; shelter-in-place declarations and quarantine orders where the Corporation has operations. The potential direct and indirect impacts of the COVID-19 pandemic have been considered in Management's estimates and assumptions at period end and have been reflected in the Consolidated Financial Statements for the year ended December 31, 2021.

Critical Accounting Estimates

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

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

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

Critical Accounting Estimates (continued)

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

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

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

Changes in Accounting Policies

There have been no changes in accounting policies during the year ended December 31, 2021.

Accounting Pronouncements not yet Adopted

A description of additional accounting standards and interpretations that will be adopted in future periods can be found in the notes to the Consolidated Financial Statements for the year ended December 31, 2021.

Evaluation of Disclosure Controls and Procedures

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

Management of Advantage, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation's DC&P as at December 31, 2021. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the DC&P are effective as of the end of the year, in all material respects.

Evaluation of Internal Controls over Financial Reporting

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

Management of Advantage, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation's ICFR as at December 31, 2021. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the ICFR are effective as of the end of the year, in all material respects.

Advantage's Chief Executive Officer and Chief Financial Officer are required to disclose any change in the ICFR that occurred during our most recent interim period that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR. No material changes in the ICFR were identified during the quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our ICFR.

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

Specified Financial Measures

Throughout this MD&A and in other documents disclosed by the Corporation, Advantage discloses certain measures to analyze financial performance, financial position, and cash flow. These non-GAAP and other financial measures do not have any standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as net income (loss) and comprehensive income (loss), cash provided by operating activities, and cash used in investing activities, as indicators of Advantage's performance.

Non-GAAP Financial Measures

Adjusted Funds Flow

The Corporation considers adjusted funds flow to be a useful measure of Advantage's ability to generate cash from the production of natural gas and liquids, which may be used to settle outstanding debt and obligations, support future capital expenditures plans, or return capital to shareholders. Changes in non-cash working capital are excluded from adjusted funds flow as they may vary significantly between periods and are not considered to be indicative of the Corporation's operating performance as they are a function of the timeliness of collecting receivables and paying payables. Expenditures on decommissioning liabilities are excluded from the calculation as the amount and timing of these expenditures are unrelated to current production and are partially discretionary due to the nature of our low liability. A reconciliation of the most directly comparable financial measure has been provided below:

	Three months ended December 31		Year ended December 31	
($000)	**2021**	**2020**	**2021**	**2020**
Cash provided by operating activities	67,464	30,260	223,152	100,714
Expenditures on decommissioning liability	253	610	1,033	1,080
Changes in non-cash working capital	3,510	868	10,639	2,867
Adjusted funds flow	71,227	31,738	234,824	104,661

Net Capital Expenditures

Net capital expenditures include total capital expenditures related to property, plant and equipment, exploration and evaluation assets and intangible assets. Management considers this measure reflective of actual capital activity for the period as it excludes changes in working capital related to other periods and excludes cash receipts on government grants. A reconciliation of the most directly comparable financial measure has been provided below:

	Three months ended December 31		Year ended December 31	
($000)	**2021**	**2020**	**2021**	**2020**
Cash used in investing activities	44,939	37,325	117,782	158,621
Changes in non-cash working capital	13,431	(4,935)	11,564	(686)
Project funding received	14	-	20,057	-
Net capital expenditures	58,384	32,390	149,403	157,935

Specified Financial Measures (continued)

Non-GAAP Financial Measures (continued)

Free Cash Flow

Advantage computes free cash flow as adjusted funds flow less net capital expenditures. Advantage uses free cash flow as an indicator of the efficiency and liquidity of Advantage's business by measuring its cash available after net capital expenditures to settle outstanding debt and obligations and potentially return capital to shareholders by paying dividends or buying back common shares. A reconciliation of the most directly comparable financial measure has been provided below:

	Three months ended December 31		Year ended December 31	
($000)	**2021**	**2020**	**2021**	**2020**
Cash provided by operating activities	67,464	30,260	223,152	100,714
Cash used in investing activities	(44,939)	(37,325)	(117,782)	(158,621)
Changes in non-cash working capital	(9,921)	5,803	(925)	3,553
Expenditures on decommissioning liability	253	610	1,033	1,080
Project funding received	(14)	-	(20,057)	-
Free cash flow	12,843	(652)	85,421	(53,274)

Operating Netback

Operating netback is comprised of sales revenue and realized gains (losses) on derivatives, net of expenses resulting from field operations, including royalty expense, operating expense and transportation expense. Operating netback provides Management and users with a measure to compare the profitability of field operations between companies, development areas and specific wells. The composition of operating netback is as follows:

	Three months ended December 31		Year ended December 31	
($000)	**2021**	**2020**	**2021**	**2020**
Natural gas and liquids sales	159,255	73,203	492,035	245,085
Realized losses on derivatives	(37,088)	(2,949)	(74,578)	(4,640)
Royalty expense	(8,928)	(3,067)	(27,530)	(10,474)
Operating expense	(12,870)	(10,750)	(44,893)	(40,005)
Transportation expense	(19,768)	(14,488)	(70,440)	(55,817)
Operating netback	80,601	41,949	274,594	134,149

Specified Financial Measures (continued)

Non-GAAP Ratios

<u>Adjusted Funds Flow per Share</u>

Adjusted funds flow per share is derived by dividing adjusted funds flow by the basic weighted average shares outstanding of the Corporation. Management believes that adjusted funds flow per share provides investors an indicator of funds generated from the business that could be allocated to each shareholder's equity position.

	Three months ended December 31		**Year ended December 31**	
($000, except as otherwise indicated)	**2021**	**2020**	**2021**	**2020**
Adjusted funds flow	71,227	31,738	234,824	104,661
Weighted average shares outstanding (000)	190,829	188,113	190,077	187,761
Adjusted funds flow per share ($/share)	0.37	0.17	1.24	0.56

<u>Adjusted Funds Flow per BOE</u>

Adjusted funds flow per boe is derived by dividing adjusted funds flow by the total production in boe for the reporting period. Adjusted funds flow per boe is a useful ratio that allows users to compare the Corporation's adjusted funds flow against other competitor corporations with different rates of production.

	Three months ended December 31		**Year ended December 31**	
($000, except as otherwise indicated)	**2021**	**2020**	**2021**	**2020**
Adjusted funds flow	71,227	31,738	234,824	104,661
Total production (boe/d)	47,940	43,532	49,445	44,922
Days in period	92	92	365	366
Total production (000 boe)	4,410	4,005	18,047	16,441
Adjusted funds flow per BOE ($/boe)	16.15	7.92	13.01	6.37

<u>Operating netback per BOE</u>

Operating netback per boe is derived by dividing each component of the operating netback by the total production in boe for the reporting period. Operating netback per boe provides Management and users with a measure to compare the profitability of field operations between companies, development areas and specific wells against other competitor corporations with different rates of production.

	Three months ended December 31		**Year ended December 31**	
($000, except as otherwise indicated)	**2021**	**2020**	**2021**	**2020**
Operating netback	80,600	41,949	274,593	134,149
Total production (boe/d)	47,940	43,532	49,445	44,922
Days in period	92	92	365	366
Total production (000 boe)	4,410	4,005	18,047	16,441
Operating netback per BOE ($/boe)	18.28	10.47	15.21	8.17

Specified Financial Measures (continued)

Non-GAAP Ratios (continued)

Payout Ratio

Payout ratio is calculated by dividing net capital expenditures by adjusted funds flow. Advantage uses payout ratio as an indicator of the efficiency and liquidity of Advantage's business by measuring its cash available after net capital expenditures to settle outstanding debt and obligations and potentially return capital to shareholders by paying dividends or buying back common shares.

	Three months ended December 31		Year ended December 31	
($000, except as otherwise indicated)	**2021**	**2020**	**2021**	**2020**
Net capital expenditures	58,384	32,390	149,403	157,935
Adjusted funds flow	71,227	31,738	234,824	104,661
Payout ratio	0.8	1.0	0.6	1.5

Net Debt to Adjusted Funds Flow Ratio

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

	Year ended December 31	
($000, except as otherwise indicated)	**2021**	**2020**
Net Debt	165,253	251,397
Adjusted funds flow (prior four quarters)	234,824	104,661
Net debt to adjusted funds flow ratio	0.7	2.4

Capital Management Measures

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)**

Specified Financial Measures (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**

Supplementary Financial Measures

Average Realized Prices

The Corporation discloses multiple average realized prices within the MD&A (see “Commodity Prices and Marketing”). The determination of these prices are as follows:

“Natural gas excluding derivatives” is comprised of natural gas sales, as determined in accordance with IFRS, divided by the Corporation’s natural gas production.

“Natural gas including derivatives” is comprised of natural gas sales, including realized gains (losses) on natural gas derivatives, as determined in accordance with IFRS, divided by the Corporation’s natural gas production.

“Crude Oil” is comprised of crude oil sales, as determined in accordance with IFRS, divided by the Corporation’s crude oil production.

“Condensate” is comprised of condensate sales, as determined in accordance with IFRS, divided by the Corporation’s condensate production.

“NGLs” is comprised of NGLs sales, as determined in accordance with IFRS, divided by the Corporation’s NGLs production.

“Total liquids excluding derivatives” is comprised of crude oil, condensate and NGLs sales, as determined in accordance with IFRS, divided by the Corporation’s crude oil, condensate and NGLs production.

“Total liquids including derivatives” is comprised of crude oil, condensate and NGLs sales, including realized gains (losses) on crude oil derivatives as determined in accordance with IFRS, divided by the Corporation’s crude oil, condensate and NGLs production.

Specified Financial Measures (continued)

Dollars per BOE figures

Throughout the MD&A, the Corporation presents certain financial figures, in accordance with IFRS, stated in dollars per boe. These figures are determined by dividing the applicable financial figure as prescribed under IRFS by the Corporation's total production for the respective period. Below is a list of figures which have been presented in the MD&A in $ per boe:

- Cash finance expense per boe
- Depreciation expense per boe
- Finance expense per boe
- General and administrative expense per boe
- Natural gas and liquids sales per boe
- Operating expense per boe
- Realized losses on derivatives per boe
- Royalty expense per boe
- Share-based compensation expense per boe
- Transportation expense per boe

Sustaining Capital

Sustaining capital is management's estimate of the net capital expenditures required to drill, complete, equip and tie-in new wells to existing infrastructure thereby offsetting the corporate decline rate and maintain production at existing levels.

Conversion Ratio

The term "boe" or barrels of oil equivalent and "Mcfe" or thousand cubic feet equivalent may be misleading, particularly if used in isolation. A boe or Mcfe conversion ratio of six thousand cubic feet of natural gas equivalent to one barrel of oil (6 Mcf: 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Abbreviations

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

bbl(s)	- barrel(s)
bbls/d	- barrels per day
boe	- barrels of oil equivalent (6 Mcf = 1 bbl)
boe/d	- barrels of oil equivalent per day
GJ	- gigajoules
Mcf	- thousand cubic feet
Mcf/d	- thousand cubic feet per day
Mcfe	- thousand cubic feet equivalent (1 bbl = 6 Mcf)
Mcfe/d	- thousand cubic feet equivalent per day
MMbtu	- million British thermal units
MMbtu/d	- million British thermal units per day
MMcf	- million cubic feet
MMcf/d	- million cubic feet per day
Crude oil	- Light Crude Oil and Medium Crude Oil as defined in National Instrument 51-101
“NGLs" & “condensate”	- Natural Gas Liquids as defined in National Instrument 51-101
Natural gas	- Conventional Natural Gas as defined in National Instrument 51-101
Liquids	- Total of crude oil, condensate and NGLs
AECO	- a notional market point on TransCanada Pipeline Limited’s NGTL system where the purchase and sale of natural gas is transacted
MSW	- price for mixed sweet crude oil at Edmonton, Alberta
NGTL	- NOVA Gas Transmission Ltd.
WTI	- West Texas Intermediate, price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade
CCS	- Carbon Capture and Storage
MCCS	- Modular Carbon Capture and Storage
nm	- not meaningful information

Forward-Looking Information and Other Advisories

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

In particular, forward-looking statements in this MD&A include, but are not limited to, statements about our strategy, plans, objectives, priorities and focus and the benefits to be derived therefrom; the revised guidance for 2021, and the additional capital's ability to deliver higher production into the winter markets; the focus of Advantage's 2022 capital program and its ability to grow adjusted funds flow per share, increase liquids revenue and make infrastructure investments that increase third-party processing revenue or establish carbon revenue for Entropy; the Corporation's expected payout ratio; that the Corporation will dedicate free cash flow towards debt reduction; guidance for 2022 including the cash used in investing activities, average production, liquids production (% of total production), royalty rate, operating expense, transportation expense and G&A/finance expense; that Entropy's non-binding financing agreement will lead to a completed financing and the anticipated timing and benefits to be derived therefrom; anticipated production rates in 2022; the Corporation's forecasted 2022 natural gas market exposure including the anticipated effective production rate; rate; the Corporation's expected number of wells to be drilled in the first quarter of 2022 and placed on production in the second quarter of 2022; the Corporation's hedging activities and the benefits to be derived therefrom; future commitments and contractual obligations and the anticipated payments in connection therewith and the anticipated timing thereof; the Corporation's ability to ensure that it is properly diversified to multiple markets; the terms of the Corporation's derivative contracts, including their purposes, the timing of settlement of such contracts and the anticipated benefits to be derived therefrom; the Corporation's anticipated 2022 annual operating expense per boe and transportation expense per boe; estimated tax pools; the Corporation's anticipated; terms of the Corporation's Credit Facilities, including timing of the next review of the Credit Facilities and the Corporation's expectations regarding extension of the Credit Facilities at each annual review; the Corporation's ability to strengthen its balance sheet, maintain a disciplined commodity risk management program and increase available liquidity; the Corporation's expectations that it is well positioned to continue successfully executing its multi-year development plan; expectations that Advantage's increase in market capitalization will provide the Corporation with flexibility in managing its capital structure; the Corporation's strategy for managing its capital structure, including by issuing new common shares, repurchasing outstanding common shares, obtaining additional financing through bank indebtedness, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend or adjusting capital spending; the Corporation's ability to satisfy all liabilities and commitments and meet future obligations as they become due and the means for satisfying such future obligations; expectations that the Phase 1 CCS project will be completed by the second quarter of 2022; the Corporation's anticipated reductions in Scope 1 and 2 emissions and the anticipated timing thereof; the Corporation's expectations that it will achieve "net zero" Scope 1 and 2 emissions by 2025; the benefits to be derived from Entropy's planned capital projects and the expectation that they will result in completed CCS projects and the anticipated timing thereof; that the Phase 2 CCS project will come on-stream and the anticipated benefits to be derived therefrom and the anticipated timing thereof; the statements under "critical accounting estimates" in this MD&A; and other matters.

These forward-looking statements involve substantial known and unknown risks and uncertainties, many of which are beyond our control, including, but not limited to, risks related to changes in general economic conditions (including as a result of demand and supply effects resulting from the COVID-19 pandemic and the actions of OPEC and non-OPEC countries) which will, among other things, impact demand for and market prices of the Corporation’s products, market and business conditions; continued volatility in market prices for oil and natural gas; the impact of

Forward-Looking Information and Other Advisories (continued)

significant declines in market prices for oil and natural gas; stock market volatility; changes to legislation and regulations and how they are interpreted and enforced; our ability to comply with current and future environmental or other laws; actions by governmental or regulatory authorities including increasing taxes, regulatory approvals, changes in investment or other regulations; changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry; the effect of acquisitions; our success at acquisition, exploitation and development of reserves; unexpected drilling results; failure to achieve production targets on timelines anticipated or at all; changes in commodity prices, currency exchange rates, capital expenditures, reserves or reserves estimates and debt service requirements; the occurrence of unexpected events involved in the exploration for, and the operation and development of, oil and gas properties; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; changes or fluctuations in production levels; individual well productivity; delays in anticipated timing of drilling and completion of wells; the number of wells to be drilled in the first quarter of 2022 and placed on production in the second quarter of 2022 will be less than anticipated lack of available capacity on pipelines; delays in timing of facility installation; potential disruption of the Corporation’s operations as a result of the COVID-19 pandemic through potential loss of manpower and labour pools resulting from quarantines in the Corporation’s operating areas, risk on the financial capacity of the Corporation's contract counterparties and potentially their ability to perform contractual obligations, delays in obtaining stakeholder and regulatory approvals; performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information; the failure to extend the credit facilities at each annual review; competition from other producers; the lack of availability of qualified personnel or management; ability to access sufficient capital from internal and external sources; credit risk; that the Glacier CCS project will not come on-stream when expected; that Advantage will not be able to achieve "net zero" emissions by 2025; that Entropy's existing planned capital projects will not result in completed CCS projects; the price of and market for carbon credits and offsets; current and future carbon prices and royalty regimes; that Entropy's non-binding financing may not be completed on the anticipated terms or at all; and the risks and uncertainties described in the Corporation’s Annual Information Form which is available at www.sedar.com and www.advantageog.com. Readers are also referred to risk factors described in other documents Advantage files with Canadian securities authorities.

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

Forward-Looking Information and Other Advisories (continued)

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

This MD&A contains information that may be considered a financial outlook under applicable securities laws about the Corporation's potential financial position, including, but not limited to, the Corporation's expected payout ratio; the Corporation's anticipated cash used in investing activities; anticipated average production, liquids production, royalty rate, operating expenses, transportation expenses and G&A/finance expenses in 2022; and the Corporation's expected 2022 annual operating expense per boe and transportation expense per boe; all of which are subject to numerous assumptions, risk factors, limitations and qualifications, including those set forth in the above paragraphs. The actual results of operations of the Corporation and the resulting financial results will vary from the amounts set forth in this MD&A and such variations may be material. This information has been provided for illustration only and with respect to future periods are based on budgets and forecasts that are speculative and are subject to a variety of contingencies and may not be appropriate for other purposes. Accordingly, these estimates are not to be relied upon as indicative of future results. Except as required by applicable securities laws, the Corporation undertakes no obligation to update such financial outlook. The financial outlook contained in this MD&A was made as of the date of this MD&A and was provided for the purpose of providing further information about the Corporation's potential future business operations. Readers are cautioned that the financial outlook contained in this MD&A is not conclusive and is subject to change.

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

References in this MD&A to short-term production rates are useful in confirming the presence of hydrocarbons, however such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long-term performance or of ultimate recovery. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production of Advantage.

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

Additional Information

Additional information relating to Advantage can be found on SEDAR at www.sedar.com and the Corporation's website at www.advantageog.com. Such other information includes the annual information form, the management information circular, press releases, material change reports, material contracts and agreements, and other financial reports. The annual information form will be of particular interest for current and potential shareholders as it discusses a variety of subject matter including the nature of the business, description of our operations, general and recent business developments, risk factors, reserves data and other oil and gas information.

February 24, 2022