

2022 Second Quarter Report

Financial Highlights

(\$000, except as otherwise indicated)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Financial Statement Highlights				
Natural gas and liquids sales	314,297	99,053	491,866	198,426
Net income and comprehensive income	164,234	8,725	183,730	8,300
per basic share ⁽²⁾	0.86	0.04	0.96	0.04
Basic weighted average shares (000)	190,415	190,501	190,621	189,313
Cash provided by operating activities	157,439	57,134	266,596	108,700
Cash provided by (used in) financing activities	(37,556)	(21,480)	(88,325)	(29,028)
Cash used in investing activities	(80,720)	(20,834)	(157,703)	(35,903)
Other Financial Highlights				
Adjusted funds flow ⁽¹⁾	187,056	46,266	295,934	100,244
per boe ⁽¹⁾	34.05	10.17	28.85	11.10
per basic share ⁽¹⁾⁽²⁾	0.98	0.24	1.55	0.53
Net capital expenditures ⁽¹⁾	47,570	22,482	133,584	59,667
Free cash flow ⁽¹⁾	139,486	23,784	162,350	40,577
Working capital surplus ⁽¹⁾	77,858	27,595	77,858	27,595
Bank indebtedness	106,776	219,856	106,776	219,856
Net debt ⁽¹⁾	44,301	192,261	44,301	192,261
Operating Highlights				
Production				
Crude oil (bbls/d)	2,858	1,163	1,933	1,278
Condensate (bbls/d)	1,128	637	1,093	679
NGLs (bbls/d)	3,392	2,490	3,124	2,492
Total liquids production (bbls/d)	7,378	4,290	6,150	4,449
Natural gas (Mcf/d)	317,976	274,328	303,183	272,804
Total production (boe/d)	60,374	50,011	56,681	49,916
Average realized prices (including realized derivatives)				
Natural gas (\$/Mcf)	6.75	2.81	5.94	2.93
Liquids (\$/bbl)	107.83	47.21	97.77	47.67
Operating Netback (\$/boe)				
Natural gas and liquids sales ⁽¹⁾	57.21	21.76	47.94	21.96
Realized losses on derivatives ⁽¹⁾	(8.50)	(2.12)	(5.57)	(1.50)
Processing and other income ⁽¹⁾	0.41	-	0.36	-
Net sales of purchased natural gas ⁽¹⁾	-	-	0.01	-
Royalty expense ⁽¹⁾	(6.17)	(1.20)	(4.90)	(1.17)
Operating expense ⁽¹⁾	(2.75)	(2.21)	(2.77)	(2.33)
Transportation expense ⁽¹⁾	(4.44)	(3.72)	(4.40)	(3.64)
Operating netback ⁽¹⁾	35.76	12.51	30.67	13.32

⁽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.

MESSAGE TO SHAREHOLDERS

Advantage Announces Second Quarter 2022 Financial and Operating Results

Advantage Energy Ltd. (“Advantage” or the “Corporation”) is pleased to report its second quarter 2022 results including record production, record adjusted funds flow(a) and a surge in profitability, while debt fell rapidly below our \$200 million target. As a result, Advantage will accelerate its return-of-capital efforts whereby all free cash flow will be allocated to share buybacks.

Financial Highlights

- Record cash provided by operating activities of \$157.4 million
- Record adjusted funds flow (“AFF”)^(a) of \$187.1 million or \$0.98/share
- Free cash flow (“FCF”)^(a) of \$139.5 million (75% of AFF)
- Cash used in investing activities was \$80.7 million
- Net capital expenditures^(a) were \$47.6 million, including \$11 million for pre-purchases of equipment to moderate the impact of inflation
- Net income of \$164.2 million or \$0.86/share
- Tax pools of \$1.4 billion continue to provide near-term cash tax deferrals
- Operating expenses remained low at \$2.75/boe
- Bank indebtedness decreased \$10.8 million to \$106.8 million
- Net debt^(a) decreased to \$44.3 million, significantly below our debt target of \$200 million
- Total share buybacks of \$47 million and 4.4 million shares during the quarter

Operational Highlights

- Record quarterly production of 60,374 boe/d (318 MMcf/d natural gas, 7,378 bbls/d liquids), a 14% increase compared to the first quarter 2022
- Record quarterly liquids production of 7,378 bbls/d (2,858 bbls/d oil, 1,128 bbls/d condensate, and 3,392 bbls/d NGLs), a 50% increase compared to the first quarter 2022
- At Glacier, new wells significantly outperformed expectations including the 16-36 well which achieved 300% payout after just 4 months of production
- Began commissioning the Entropy Modular Carbon Capture and Storage project at Glacier, enroute to Advantage’s 2025 net-zero emissions target
- At Valhalla, the 14-33 two well pad delivered total IP30 of 2,837 boe/d (11 MMcf/d natural gas, 769 bbls/d condensate, and 231 bbls/d NGLs), further validating the quality of this early-stage asset
- At Wembley, production averaged 6,293 boe/d (15 MMcf/d natural gas, 2,664 bbls/d oil, and 1,135 bbls/d NGLs) after a successful six-well winter program

(a) Specified financial measure which is not a standardized measure under International Financial Reporting Standards (“IFRS”) and may not be comparable to similar specified financial measures used by other entities. Please see “Specified Financial Measures” in the Consolidated Management’s Discussion & Analysis 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 where required, a reconciliation of the specified financial measure to the most directly comparable IFRS measure.

Marketing Update

Advantage has made significant strides in isolating the Corporation from relative AECO weakness, which continues to occur due to expansion delays, maintenance disruptions and market inefficiencies on TC Energy's NGTL system. Exposure to AECO during the second quarter was 42% of production, falling to 32% for the third quarter and about 25% next summer. The remainder of Advantage production is delivered into markets outside of AECO including Empress, Dawn, Chicago and Ventura.

Advantage has approximately 44% of its forecast natural gas production hedged for the remainder of this summer at an average of US\$4.23/MMbtu and 34% hedged for this upcoming winter at US\$4.98/MMbtu.

Looking Forward

In order to maximize shareholder returns, Advantage's priority is growing adjusted funds flow per share^(a). To optimize growth of adjusted funds flow^(a), Advantage is targeting organic growth of between 10% and 15% per year in the near-term. The capital program for the second half of 2022 will focus on liquids-rich growth which delivers outsized adjusted funds flow^(a) growth per unit of production. Free cash flow^(a) will be allocated to our share buyback program, with 6 million common shares already purchased at a total cost of \$61 million since inception on April 13, 2022.

Advantage's 2022 capital guidance has been increased to between \$210 million and \$230 million (previously \$200 million). This increase is the result of adding 1.5 net new drills, continued inflation, and increased frac intensity across all assets. Thanks to strong operational execution, 2022 production guidance has been increased to between 53,500 boe/d and 56,500 boe/d (previously 52,000 boe/d to 55,000 boe/d) with liquids production between 5,800 bbls/d and 6,200 bbls/d (previously 5,400 bbls/d to 5,800 bbls/d).

As the world continues to adjust to violent geopolitical instability and the closely related European energy crisis, Advantage is proud to deliver clean, reliable, sustainable energy, while contributing to a reduction in global emissions by displacing high-carbon fuels.



CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

For the three and six months ended June 30, 2022 and 2021

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of July 28, 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 and six months ended June 30, 2022 and should be read in conjunction with the unaudited condensed consolidated financial statements for the three and six months ended June 30, 2022 and the audited consolidated financial statements for the year ended December 31, 2021 (together, the "consolidated financial statements"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), representing generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. All references in the MD&A and consolidated financial statements are to Canadian dollars unless otherwise indicated.

This MD&A contains 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.

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Operating Highlights

	Three months ended		Six months ended	
	June 30		June 30	
	2022	2021	2022	2021
Operating				
Production				
Crude oil (bbls/d)	2,858	1,163	1,933	1,278
Condensate (bbls/d)	1,128	637	1,093	679
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Royalty expense	(6.17)	(1.20)	(4.90)	(1.17)
Operating expense	(2.75)	(2.21)	(2.77)	(2.33)
Transportation expense	(4.44)	(3.72)	(4.40)	(3.64)
Operating netback ⁽¹⁾	35.76	12.51	30.67	13.32

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Corporate Update

2022 Guidance Update

Advantage's 2022 capital guidance has been increased to between \$210 million and \$230 million (previously \$200 million). This increase is the result of adding 1.5 net new drills, continued inflation, and increased frac intensity across all assets. Thanks to strong operational execution, 2022 production guidance has been increased to between 53,500 boe/d and 56,500 boe/d (previously 52,000 boe/d to 55,000 boe/d) with liquids production between 5,800 bbls/d and 6,200 bbls/d (previously 5,400 bbls/d to 5,800 bbls/d).

Forward Looking Information⁽¹⁾	2022 Prior Guidance⁽³⁾	2022 Revised Guidance
Cash Used in Investing Activities ⁽²⁾ (\$ millions)	170 to 200	210 to 230
Average Production (boe/d)	52,000 to 55,000	53,500 to 56,500
Liquids Production (bbls/d)	5,400 to 5,800	5,800 to 6,200
Royalty Rate (%)	12 to 17	12 to 17
Operating Expense (\$/boe)	2.45	2.45
Transportation Expense (\$/boe)	4.85 to 5.15	4.85 to 5.15
G&A/Finance Expense (\$/boe)	1.55	1.55

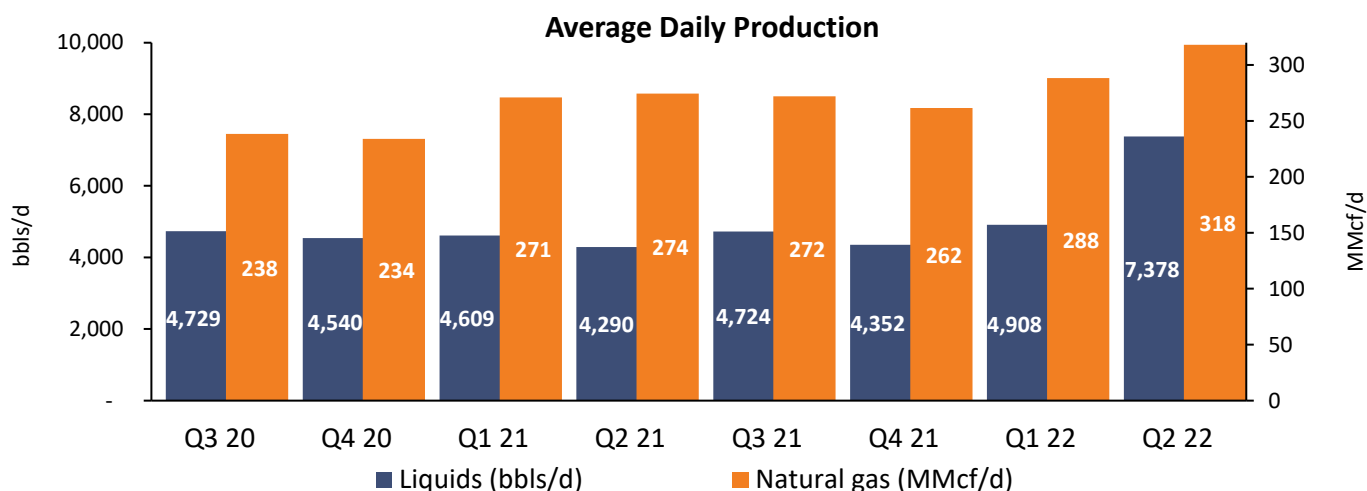
⁽¹⁾ Forward-looking statements and information representing Management estimates. Please see "Forward-Looking Information and Other Advisories".

⁽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.

⁽³⁾ See March 31, 2022 MD&A dated April 28, 2022 for revised forward looking information.

Production

Average Daily Production	Three months ended June 30			Six months ended June 30		
	2022	2021	% Change	2022	2021	% Change
Crude oil (bbls/d)	2,858	1,163	146	1,933	1,278	51
Condensate (bbls/d)	1,128	637	77	1,093	679	61
NGLs (bbls/d)	3,392	2,490	36	3,124	2,492	25
Total liquids production (bbls/d)	7,378	4,290	72	6,150	4,449	38
Natural gas (Mcf/d)	317,976	274,328	16	303,183	272,804	11
Total production (boe/d)	60,374	50,011	21	56,681	49,916	14
Liquids (% of total production)	12	9		11	9	
Natural gas (% of total production)	88	91		89	91	



Advantage achieved record production of 60,374 boe/d during the three months ended June 30, 2022, while recording production of 56,681 boe/d during the six months ended June 30, 2022, increases of 21% and 14%, respectively, when compared to the same periods of the prior year.

Natural gas production for the three and six months ended June 30, 2022 averaged 318 MMcf/d and 303 MMcf/d, respectively, increases of 16% and 11% compared to the same periods of the prior year. After completing the required turnaround at the Glacier Gas Plant in the first quarter of 2022, Advantage was able to ramp up natural gas production in the second quarter of 2022 into a significantly stronger natural gas pricing environment (see "Commodity Prices and Marketing").

Liquids production increased significantly to 7,378 bbls/d and 6,150 bbls/d for the three and six months ended June 30, 2022, increases of 72% and 38%, respectively, as a result of 6 gross (6.0 net) Wembley oil wells being brought onstream. Advantage's higher liquids production came on during a period where WTI averaged over US\$108/bbl (see "Commodity Prices and Marketing"), materially contributing to the Corporation's operating netback (see "Operating Netback").

Commodity Prices and Marketing

Average Realized Prices ⁽²⁾	Three months ended			Six months ended		
	June 30	June 30	%	June 30	June 30	%
	2022	2021	Change	2022	2021	Change
Natural gas						
Excluding derivatives (\$/Mcf)	8.29	3.08	169	6.92	3.12	122
Including derivatives (\$/Mcf)	6.75	2.81	140	5.94	2.93	103
Liquids						
Crude oil (\$/bbl)	132.01	75.08	76	127.01	68.94	84
Condensate (\$/bbl)	143.42	81.67	76	129.25	75.35	72
NGLs (\$/bbl)	81.92	42.09	95	74.05	42.30	75
Total liquids excluding derivatives (\$/bbl)	110.73	56.91	95	100.51	55.00	83
Total liquids including derivatives (\$/bbl)	107.83	47.21	128	97.77	47.67	105
Average Benchmark Prices						
Natural gas ⁽¹⁾						
AECO daily (\$/Mcf)	6.95	3.09	125	5.85	3.11	88
AECO monthly (\$/Mcf)	6.31	2.85	121	5.43	2.89	88
Empress daily (\$/Mcf)	7.87	3.06	157	6.40	3.12	105
Henry Hub (\$US/MMbtu)	7.21	2.88	150	5.71	3.13	82
Emerson 2 daily (\$US/MMbtu)	6.61	2.70	145	5.45	2.80	95
Dawn daily (\$US/MMbtu)	7.23	2.79	159	5.83	2.86	104
Chicago Citygate (\$US/MMbtu)	7.34	2.74	168	5.87	2.68	119
Ventura (\$US/MMbtu)	7.31	2.60	181	5.89	2.63	124
Liquids						
WTI (\$US/bbl)	108.57	66.06	64	101.44	61.95	64
MSW Edmonton (\$/bbl)	135.94	76.12	79	125.78	71.88	75
Average Exchange rate (\$US/\$CDN)	0.7832	0.8148	(4)	0.7865	0.8017	(2)

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

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

Advantage's realized liquids price excluding derivatives for the three and six months ended June 30, 2022, was \$110.73/bbl and \$100.51/bbl, respectively, increases of 95% and 83% compared to the same periods of the prior year. Realized crude oil, condensate and NGL prices all increased significantly due to the considerably improved WTI price, with continued global economic recovery from the COVID-19 pandemic combined with the ongoing Ukrainian-Russian war. 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 much higher market prices than other NGLs.

Advantage's realized natural gas price excluding derivatives for the three and six months ended June 30, 2022, was \$8.29/Mcf and \$6.92/Mcf, respectively, increases of 169% and 122% 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 increased realizations due to the higher heat content of our natural gas. North American natural gas benchmark prices have significantly increased due to recovering industrial demand combined with liquefied natural gas ("LNG") exports. Advantage has realized natural gas prices higher than AECO as we currently have additional market exposure at Dawn, Empress, Emerson, Chicago and Ventura.

Commodity Prices and Marketing (continued)

Advantage has proactively invested in additional transportation commitments to diversify production to these alternative markets, thereby reducing price volatility and achieving higher operating netbacks (see "Transportation Expense"). In the first quarter of 2022, Advantage secured an additional 47.4 MMcf/d of firm transportation capacity to Empress, AB on the NGTL system for a 4-year term commencing April 2022.

The following table outlines the Corporation's 2022 forward-looking natural gas market exposure, and six months ended June 30, 2022 actual natural gas market exposure, excluding hedging.

Sales Markets	Six months ended June 30, 2022		Forward-looking 2022 ⁽²⁾	
	Production (MMcf/d) ⁽¹⁾	Percentage of Natural Gas Production (%)	Effective production (MMcf/d) ⁽¹⁾	Percentage of Natural Gas Production (%)
AECO	144.7	48	115.5	39
Empress	49.0	16	66.8	23
Emerson	-	-	4.5	2
Dawn	79.5	26	75.1	25
Chicago	15.0	5	17.1	6
Ventura	15.0	5	15.0	5
Total	303.2	100	294.0⁽³⁾	100

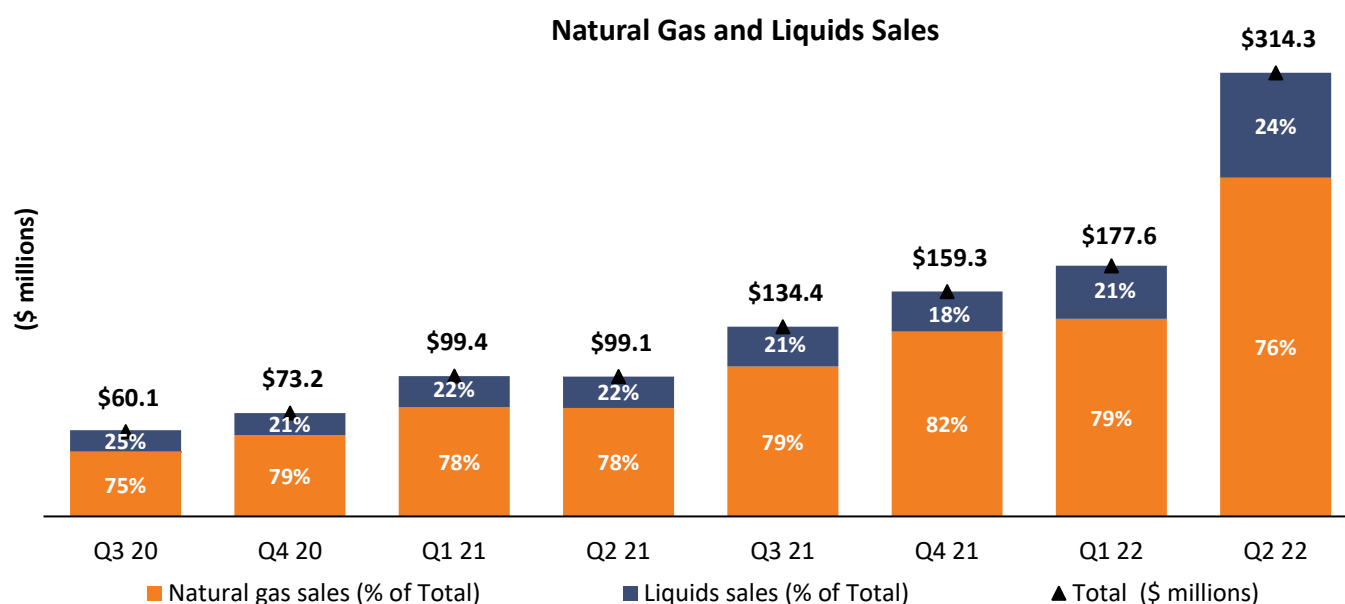
⁽¹⁾ Converted on the basis of 1 Mcf = 1.055056 GJ and 1 Mcf = 1 MMbtu.

⁽²⁾ Natural gas market exposure based on contracts in-place at June 30, 2022.

⁽³⁾ Represents the midpoint of our revised 2022 guidance for natural gas production volumes (see New Release dated July 28, 2022).

Natural gas and liquids sales

(\$000, except as otherwise indicated)	Three months ended			Six months ended		
	June 30		%	June 30		%
	2022	2021	Change	2022	2021	Change
Crude oil	34,333	7,946	332	44,438	15,946	179
Condensate	14,722	4,734	211	25,569	9,261	176
NGLs	25,286	9,537	165	41,873	19,079	119
Liquids	74,341	22,217	235	111,880	44,286	153
Natural gas	239,956	76,836	212	379,986	154,140	147
Natural gas and liquids sales	314,297	99,053	217	491,866	198,426	148
per boe	57.21	21.76	163	47.94	21.96	118



Natural gas and liquids sales for the three and six months ended June 30, 2022, increased by \$215.2 million or 217% and \$293.4 million or 148%, respectively, compared to the same corresponding periods of 2021.

For the three months ended June 30, 2022, natural gas sales increased by \$163.1 million or 212%, compared to the corresponding period in 2021, due to a 169% increase in realized natural gas prices (see “Commodity Prices and Marketing”), accompanied with a 16% increase in natural gas production volumes (see “Production”). Second quarter liquids sales increased by \$52.1 million, or 235%, due to a 95% increase in realized liquids prices (see “Commodity Prices and Marketing”), accompanied with a 72% increase in liquids production volumes (see “Production”).

For the six months ended June 30, 2022, natural gas sales increased by \$225.8 million or 147%, compared to 2021, due to a 122% increase in realized natural gas prices (see “Commodity Prices and Marketing”), accompanied with an 11% increase in natural gas production volumes (see “Production”). Liquids sales increased by \$67.6 million, or 153%, due to an 83% increase in realized liquids prices (see “Commodity Prices and Marketing”), accompanied with a 38% increase 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 and 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 and six months ended June 30, 2022, and 2021 are as follows:

	Three months ended		Six months ended	
	June 30		June 30	
	2022	2021	2022	2021
Realized gains (losses) on derivatives				
Natural gas	(44,519)	(6,754)	(53,868)	(9,218)
Crude oil	(1,943)	(3,787)	(3,048)	(5,899)
Foreign exchange	(217)	1,093	(102)	1,932
Interest rate	-	(178)	(104)	(342)
Total	(46,679)	(9,626)	(57,122)	(13,527)
Unrealized gains (losses) on derivatives				
Natural gas	29,865	(17,476)	(39,401)	(25,849)
Crude oil	908	(4,290)	(308)	(8,407)
Natural gas embedded derivative	37,939	16,609	56,060	2,555
Foreign exchange	(2,006)	(1,856)	(754)	(1,745)
Interest rate	-	171	136	326
Total	66,706	(6,842)	15,733	(33,120)
Gains (losses) on derivatives				
Natural gas	(14,654)	(24,230)	(93,269)	(35,067)
Crude oil	(1,035)	(8,077)	(3,356)	(14,306)
Natural gas embedded derivative	37,939	16,609	56,060	2,555
Foreign exchange	(2,223)	(763)	(856)	187
Interest rate	-	(7)	32	(16)
Total	20,027	(16,468)	(41,389)	(46,647)

Financial Risk Management (continued)

Natural gas

For the three and six months ended June 30, 2022, Advantage realized losses on natural gas derivatives of \$44.5 million and \$53.9 million, respectively, due to the settlement of contracts with average derivative contract prices that were below average market prices that significantly strengthened during the year.

Advantage recognized an unrealized gain on natural gas derivatives of \$29.9 million for the three months ended June 30, 2022, while recognizing an unrealized loss on natural gas derivatives of \$39.4 million for the six months ended June 30, 2022. Unrealized gains and losses are a result of changes in the fair value of the Corporation's outstanding natural gas derivative contracts accompanied with the settlement of contracts in their respective periods. For the six months ended June 30, 2022, the change in the fair value of our outstanding natural gas derivative contracts was significantly impacted by the increased liability valuation of our natural gas derivative contracts due to strengthening Henry Hub prices.

Crude oil

For the three and six months ended June 30, 2022, Advantage realized losses on crude oil derivatives of \$1.9 million and \$3.0 million, respectively, due to the settlement of contracts with average derivative contract prices that were below average market prices that similarly strengthened during the year.

Advantage recognized an unrealized gain on crude oil derivatives of \$0.9 million for the three months ended June 30, 2022, while recognizing an unrealized loss on crude oil derivatives of \$0.3 million for the six months ended June 30, 2022. The change in the fair value of our outstanding crude oil derivative contracts was impacted by the increased liability valuation of our crude oil derivative contracts due to strengthening WTI prices.

Natural gas embedded derivative

Advantage entered into a long-term natural gas supply agreement in 2020 under which Advantage will supply 25,000 MMbtu/d of natural gas for a 10-year period, scheduled to commence in 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 gains (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. For the three and six months ended June 30, 2022, the Corporation's embedded derivative resulted in an unrealized gain of \$37.9 million and \$56.1 million, respectively, as a result of strengthening PJM power prices.

Foreign exchange

For the six months ended June 30, 2022, Advantage realized a loss on foreign exchange derivatives of \$0.1 million while recognizing an unrealized loss of \$0.8 million. The unrealized loss is a result of the value of the Canadian dollar being lower than the Corporation's average hedged foreign exchange rate position at June 30, 2022.

Interest rate

For the six months ended June 30, 2022, Advantage realized losses on interest rate derivatives of \$0.1 million. The Corporation's interest rate derivative contracts concluded in the first quarter of 2022.

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 July 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 June 30, 2022 and July 28, 2022, the Corporation had the following commodity and foreign exchange derivative contracts in place:

Description of Derivative	Term	Volume	Price
Natural gas - Henry Hub NYMEX			
Fixed price swap	April 2022 to October 2022	130,000 Mcf/d	US \$4.23/Mcf
Fixed price swap	November 2022 to March 2023	105,000 Mcf/d	US \$4.98/Mcf
Fixed price swap	April 2023 to October 2023	25,000 Mcf/d	US \$3.35/Mcf
Natural gas - AECO/Henry Hub Basis Differential			
Basis swap	April 2023 to December 2024	40,000 Mcf/d	Henry Hub less US \$1.19/Mcf
Crude oil - WTI NYMEX			
Fixed price swap	July 2022 to December 2022	250 bbls/d	US \$96.50/bbl
Collar	April 2022 to December 2022	250 bbls/d	US \$80.00/bbl - US \$115.00/bbl
Forward rate - CAD/USD			
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
Average rate currency swap	May 2022 to March 2023	US \$ 1,000,000/month	1.2850

Processing and Other Income

(\$000, except as otherwise indicated)	Three months ended			Six months ended		
	June 30		%	June 30		%
	2022	2021	Change	2022	2021	Change
Processing and other income	2,277	-	nm	3,715	-	nm
per boe	0.41	-	nm	0.36	-	nm

Advantage earns processing income from contracts entered in 2022 whereby the Corporation charges third-parties to utilize excess capacity at the Glacier Gas Plant and the Progress battery.

Net Sales of Purchased Natural Gas

(\$000, except as otherwise indicated)	Three months ended			Six months ended		
	June 30		%	June 30		%
	2022	2021	Change	2022	2021	Change
Sales of purchased natural gas	-	-	nm	4,826	-	nm
Natural gas purchases	-	-	nm	(4,756)	-	nm
Net sales of purchased natural gas	-	-	nm	70	-	nm
per boe	-	-	nm	0.01	-	nm

During the six months ended June 30, 2022, the Corporation purchased natural gas volumes to satisfy physical sales commitments during planned downtime at the Glacier Gas Plant. During the six months ended June 30, 2022, Advantage realized \$4.8 million of revenue from the sale of purchased natural gas while the natural gas volumes were purchased for a total of \$4.8 million.

Royalty Expense

	Three months ended			Six months ended		
	June 30		%	June 30		%
	2022	2021	Change	2022	2021	Change
Royalty expense (\$000)	33,924	5,456	522	50,221	10,543	376
per boe	6.17	1.20	414	4.90	1.17	319
Royalty rate (%) ⁽¹⁾	10.8	5.5	5.3	10.2	5.3	4.9

⁽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 and six months ended June 30, 2022 increased by \$28.5 million and \$39.7 million, respectively. The increase in royalty expense for each period was due to significantly higher natural gas and liquids prices accompanied with increased production and royalty rates. Royalties paid on new wells drilled in Alberta are typically low until the initial capital investment is recovered at which time the royalty rate will increase based on the magnitude of production and commodity price. With the much higher commodity price environment and well productivity, Advantage's new wells quickly payout the initial capital invested at a rapid pace thereby resulting in higher royalty rates than historically experienced.

Operating Expense

	Three months ended			Six months ended		
	June 30		%	June 30		%
	2022	2021	Change	2022	2021	Change
Operating expense (\$000)	15,088	10,071	50	28,381	21,056	35
per boe	2.75	2.21	24	2.77	2.33	19

Operating expense for the three and six months ended June 30, 2022, increased by \$5.0 million and \$7.3 million, increases of 50% and 35%. The higher operating expense was attributed to the 21% and 14% increases in total production, additional third-party processing fees associated with higher production at Wembley, and inflation experienced on materials. Operating expense per boe increased by 24% and 19%, respectively, due to higher liquids production from our Wembley area.

Transportation Expense

	Three months ended			Six months ended		
	June 30		%	June 30		%
	2022	2021	Change	2022	2021	Change
Natural gas (\$000)	22,062	15,360	44	41,184	30,391	36
Liquids (\$000)	2,316	1,558	49	3,947	2,527	56
Total transportation expense (\$000)	24,378	16,918	44	45,131	32,918	37
per boe	4.44	3.72	19	4.40	3.64	21

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 and six months ended June 30, 2022, increased by \$7.5 million and \$12.2 million, respectively, increases of 44% and 37%. The increases in transportation expense is a result of increased NGTL tolls, higher fuel costs associated with increased natural gas prices, and additional liquids transportation associated with higher liquids production.

Operating Netback

	Three months ended June 30			
	2022		2021	
	\$000	per boe	\$000	per boe
Natural gas and liquids sales	314,297	57.21	99,053	21.76
Realized losses on derivatives	(46,679)	(8.50)	(9,626)	(2.12)
Processing and other income	2,277	0.41	-	-
Royalty expense	(33,924)	(6.17)	(5,456)	(1.20)
Operating expense	(15,088)	(2.75)	(10,071)	(2.21)
Transportation expense	(24,378)	(4.44)	(16,918)	(3.72)
Operating netback⁽¹⁾	196,505	35.76	56,982	12.51

	Six months ended June 30			
	2022		2021	
	\$000	per boe	\$000	per boe
Natural gas and liquids sales	491,866	47.94	198,426	21.96
Realized losses on derivatives	(57,122)	(5.57)	(13,527)	(1.50)
Processing and other income	3,715	0.36	-	-
Net sales of purchased natural gas	70	0.01	-	-
Royalty expense	(50,221)	(4.90)	(10,543)	(1.17)
Operating expense	(28,381)	(2.77)	(21,056)	(2.33)
Transportation expense	(45,131)	(4.40)	(32,918)	(3.64)
Operating netback⁽¹⁾	314,796	30.67	120,382	13.32

⁽¹⁾ 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 and six months ended June 30, 2022, Advantage's operating netback increased by 245% and 161%, respectively, or \$23.25/boe and \$17.35/boe. The increase in the Corporation's operating netbacks per boe 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 (see "Financial Risk Management") and increased royalty expense (see "Royalty Expense"), both similarly due to significantly increased natural gas and crude oil benchmark prices.

General and Administrative Expense

	Three months ended			Six months ended		
	June 30		%	June 30		%
	2022	2021	Change	2022	2021	Change
General and administrative expense (\$000)	5,222	5,384	(3)	10,476	9,163	14
per boe	0.95	1.18	(19)	1.02	1.01	1
Employees at June 30				49	41	20

General and administrative ("G&A") expense for the six months ended June 30, 2022 increased by \$1.3 million, an increase of 14%, while G&A for the three months ended June 30, 2022 was comparable to the prior period. For the six months ended June 30, 2022, the Corporation's G&A increased largely due to a 20% increase in employee count, accompanied by an incremental \$0.7 million of G&A incurred by Entropy Inc. ("Entropy"), the Corporation's subsidiary.

Share-based Compensation Expense

	Three months ended			Six months ended		
	June 30		%	June 30		%
	2022	2021	Change	2022	2021	Change
Share-based compensation (\$000)	2,031	1,674	21	4,014	3,284	22
Capitalized (\$000)	(349)	(355)	(2)	(926)	(933)	(1)
Cash settled awards (\$000)	-	(682)	nm	-	(682)	nm
Share-based compensation expense (\$000)	1,682	637	164	3,088	1,669	85
per boe	0.31	0.14	121	0.30	0.18	67

Advantage's long-term compensation plan for 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 Advantage'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. Share-based compensation increased when compared to the same periods in 2021, due to an increase in employees, additional share-based compensation associated with Entropy, and certain awards settled in cash in 2021. Entropy implemented a long-term share-based compensation plan for service providers of Entropy in 2021, consisting of a stock option plan whereby an initial grant of stock options occurred in June 2021.

Depreciation Expense

	Three months ended			Six months ended		
	June 30		%	June 30		%
	2022	2021	Change	2022	2021	Change
Depreciation expense (\$000)	37,248	27,182	37	67,644	53,869	26
per boe	6.78	5.97	14	6.59	5.96	11

The increase in depreciation expense during the three and six months ended June 30, 2022, was attributable to an increased net book value associated with the Corporation's natural gas and liquids properties subsequent to booking an impairment reversal of \$340.7 million in the fourth quarter of 2021, accompanied with increased 2022 production (see "Production").

Finance Expense

	Three months ended			Six months ended		
	June 30		%	June 30		%
	2022	2021	Change	2022	2021	Change
Cash finance expense (\$000)	4,227	5,332	(21)	8,386	10,975	(24)
per boe	0.77	1.17	(34)	0.82	1.21	(32)
Accretion expense (\$000)	400	260	54	776	560	39
Total finance expense (\$000)	4,627	5,592	(17)	9,162	11,535	(21)
per boe	0.84	1.23	(32)	0.89	1.28	(30)

Advantage realized lower cash finance expense during the three and six months ended June 30, 2022, as a result of decreased average outstanding bank indebtedness when compared to the same periods in 2021. 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.

On April 5, 2022, the Corporation's subsidiary Entropy issued a \$25 million unsecured debenture that is non-recourse to Advantage. The unsecured debenture bears an interest rate of 8% that Entropy can elect to pay in cash or pay-in-kind. Any paid-in-kind interest is added to the aggregate principal amount of the unsecured debenture. For the three months ended June 30, 2022, Entropy incurred interest of \$0.5 million that was paid in cash (see "Unsecured Debentures").

Taxes

	Three months ended			Six months ended		
	June 30		%	June 30		%
	2022	2021	Change	2022	2021	Change
Income tax expense (\$000)	50,198	2,620	nm	56,429	2,726	nm
Effective tax rate (%)	23.4	23.1		23.5	24.7	

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the three and six months ended June 30, 2022, the Corporation recognized a deferred income tax expense of \$50.2 million and \$56.4 million, respectively, as a result of generating substantial income before taxes and non-controlling interest. As at June 30, 2022, the Corporation had a deferred income tax liability of \$152.7 million.

Net Income and Comprehensive Income Attributable to Advantage Shareholders

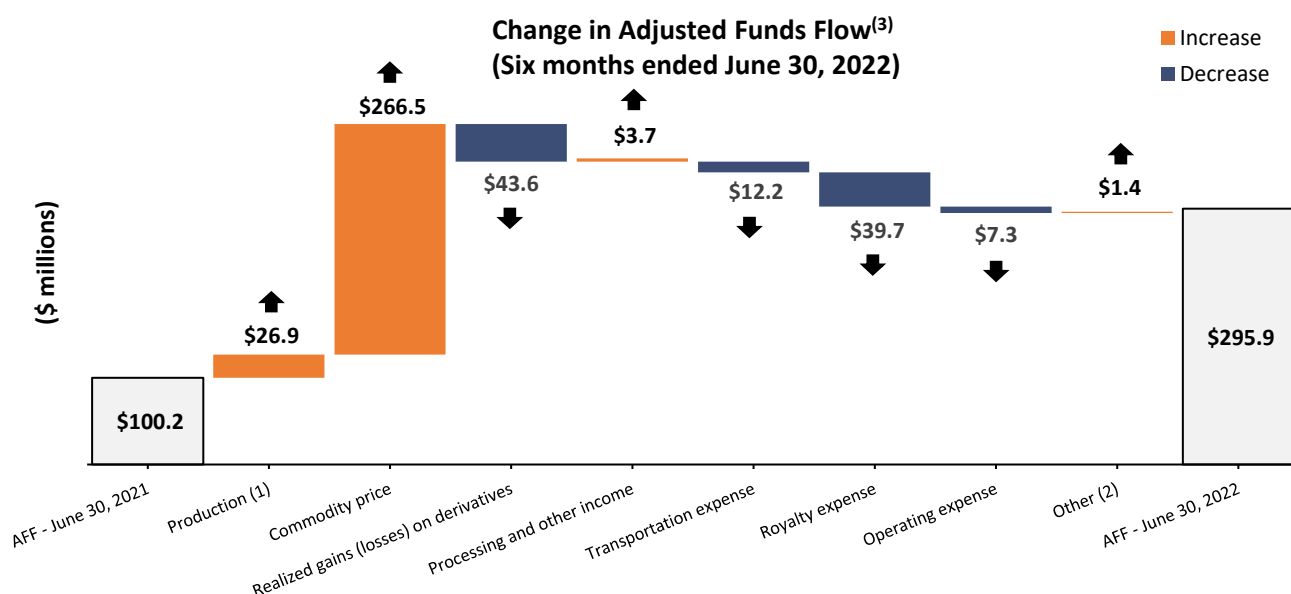
	Three months ended			Six months ended		
	June 30		%	June 30		%
	2022	2021	Change	2022	2021	Change
Net income and comprehensive income attributable to Advantage shareholders (\$000)	164,334	8,725	nm	183,913	8,300	nm
per share - basic	0.86	0.04	nm	0.96	0.04	nm
per share - diluted	0.83	0.04	nm	0.93	0.04	nm

Advantage recognized net income attributable to Advantage shareholders of \$164.3 million and \$183.9 million for the three and six months ended June 30, 2022, respectively. Net income and comprehensive income attributable to Advantage shareholders was significantly higher when compared to 2021 largely due to increased natural gas and liquids sales attributable to higher commodity prices and production (see "Natural gas and liquids sales"), partially offset by increased expenses and losses on derivatives (see "Financial Risk Management").

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

(\$000, except as otherwise indicated)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Cash provided by operating activities	157,439	57,134	266,596	108,700
Expenditures on decommissioning liability	103	328	554	342
Changes in non-cash working capital	29,514	(11,196)	28,784	(8,798)
Adjusted funds flow ⁽¹⁾	187,056	46,266	295,934	100,244
Adjusted funds flow per boe ⁽¹⁾	34.05	10.17	28.85	11.10
Adjusted funds flow per share ⁽¹⁾	0.98	0.24	1.55	0.53

⁽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⁾ Other includes net sales of purchased natural gas, general and administrative expense, and finance expense (excluding 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".

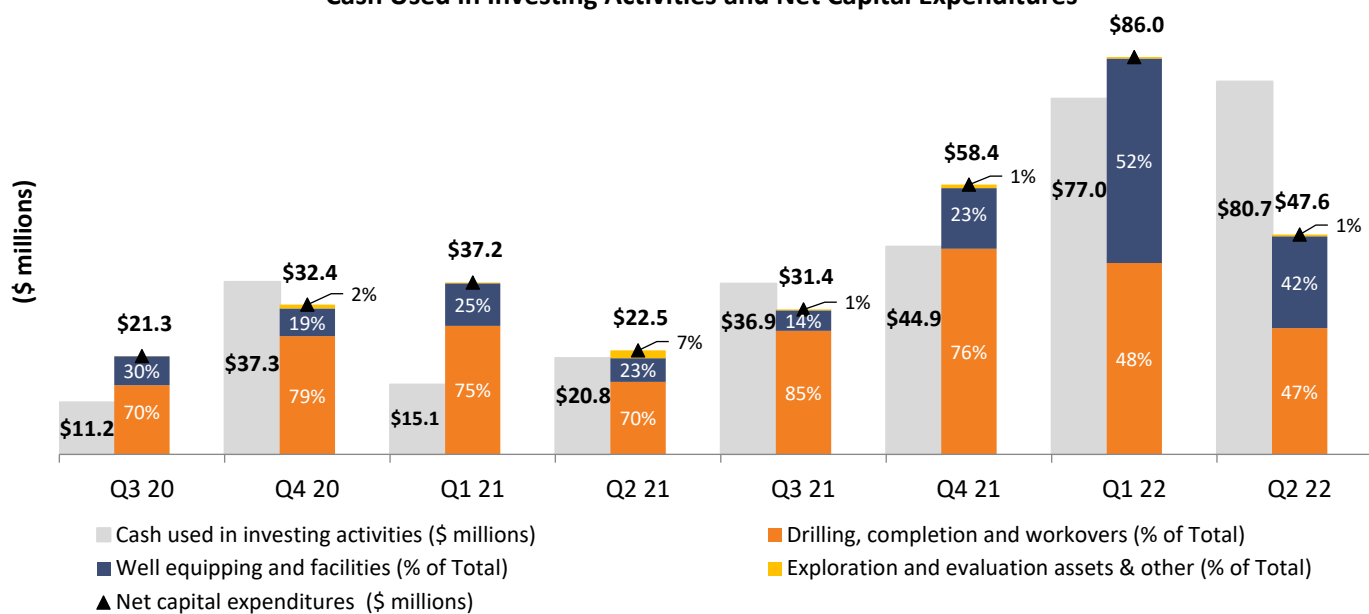
For the three and six months ended June 30, 2022, Advantage realized cash provided by operating activities of \$157.4 million and \$266.6 million, increases of \$100.3 million and \$157.9 million, respectively, when compared to the same periods of 2021. After adjusting for non-cash changes in working capital and expenditures on decommissioning liability, the Corporation realized adjusted funds flow of \$187.1 million and \$295.9 million, increases of \$140.8 million and \$195.7 million, respectively, when compared to the same periods of 2021. The increases in cash provided by operating activities and adjusted funds flow were largely due to the increase in natural gas and liquids sales as a result of significantly improved commodity prices and higher total production (see "Commodity Prices and Marketing" and "Production"). These increases were partially offset by higher expenses and realized losses on derivatives (see "Financial Risk Management").

Cash Used in Investing Activities and Net Capital Expenditures

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Drilling, completion and workovers	27,257	15,664	68,673	43,473
Well equipping and facilities	19,905	5,117	64,167	14,329
Property acquisitions	-	1,473	-	1,473
Other	130	33	266	38
Expenditures on property, plant and equipment	47,292	22,287	133,106	59,313
Expenditures on exploration and evaluation assets	-	195	-	354
Expenditures on intangible assets	278	-	478	-
Net capital expenditures ⁽¹⁾	47,570	22,482	133,584	59,667
Changes in non-cash working capital	33,150	(1,625)	24,124	(3,741)
Project funding received	-	(23)	(5)	(20,023)
Cash used in investing activities	80,720	20,834	157,703	35,903

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

Cash Used in Investing Activities and Net Capital Expenditures



Advantage invested \$47.6 million and \$133.6 million on property, plant, and equipment, exploration and evaluation assets and intangible assets during the three and six months ended June 30, 2022. Spending was distributed across all properties but was particularly focused on Wembley, where 6 gross (6.0 net) new wells were brought on production and connected to Advantage owned infrastructure and to the Keyera Pipestone plant, while 4 new wells were drilled at Valhalla. The Corporation began commissioning Phase 1 of our CCS and waste heat recovery project at the Glacier Gas Plant and completed construction of the initial phase of our Progress compressor and liquids hub, providing additional gas and liquids handling. Expenditures on property, plant, and equipment also includes \$11 million of casing and other equipment that was pre-purchased for future quarters to reduce costs and secure supply given the current inflationary environment.

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

Glacier

Production at Advantage's Glacier gas property continued to grow, surpassing a peak production level of 50,000 boe/d during the first half of 2022 after being the focus of our 2021 capital program. Activity for 2022 has been limited with 5.0 gross (3.0 net) wells brought on production. Well performance of these wells has been exceptional averaging a peak IP30 rate of 1,850 boe/d (10.2 MMcf/d natural gas and 156 bbls/d condensate), despite being choked back to minimize erosional risks and impacts on existing nearby wells.

Construction of the Phase 1 CCS and waste heat recovery project at the Glacier Gas Plant continued with final mechanical and electrical tie-ins occurring during a planned turnaround in late March. Construction continued through the second quarter with commissioning occurring late June and early July. In 2021, Advantage received \$20 million of funding related to the construction of the Phase 1 CCS project from the Government of Alberta's *Industrial Energy Efficiency and Carbon Capture Utilization and Storage Program*.

Valhalla

Advantage drilled 4.0 gross (4.0 net) wells at Valhalla year to date. Two wells were placed on production during the second quarter and two wells are in the process of being completed and will be placed on production in the third quarter. The two wells placed on production in the second quarter had IP30 average production rates of 1,390 boe/d (6.0 MMcf/d natural gas and 385 bbls/d condensate) at 28% liquids (raw volumes measured at wellsite separator). All Valhalla production flows through Advantage owned infrastructure to our Glacier Gas Plant. Strong well results support Management's view that our Valhalla asset will play a pivotal role in the Corporation's liquids-rich gas development plan.

Wembley

At Wembley, development of this oil-weighted property continued in the first half of 2022 with an active program consisting of 3.0 gross (3.0 net) drills, 6.0 gross (6.0 net) completions and 6.0 gross (6.0 net) wells placed on production. Construction of a pipeline corridor connecting our 100% owned compressor site and 5,000 bbl/d liquids handling hub to the Keyera Pipestone plant was completed. The Wembley asset is now connected to two major processing facilities providing sufficient gas processing capacity for future growth. During April, the remaining 3.0 gross (3.0 net) wells that were completed in the first quarter were placed on production resulting in record total production from the Wembley area.

Progress

Construction of the first phase (inlet separation and compression) of our 100% owned Progress compressor site and liquids handling hub was completed in early second quarter providing additional gas and liquids handling at Progress, generating processing income from a 5-year commitment by a third-party that will utilize excess capacity at the facility and the Glacier Gas Plant, and freeing up capacity at Valhalla.

Entropy Inc.

During the six months ended June 30, 2022, Entropy incurred \$0.5 million in net capital expenditures related to the Corporation's technology development and testing of Entropy's proprietary carbon capture solvents.

Commitments and Contractual Obligations

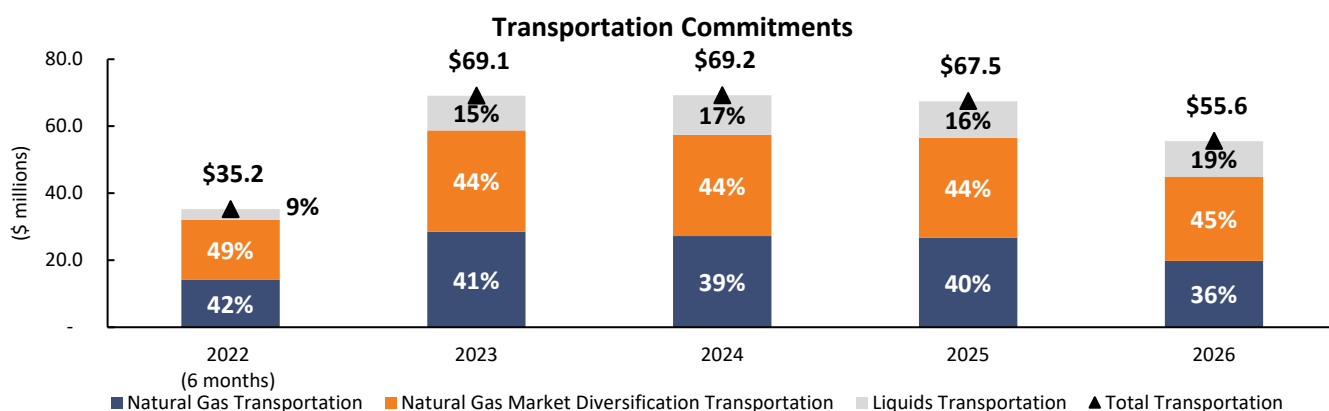
The Corporation has commitments and contractual obligations in the normal course of operations. Commitments include operating costs for our head office lease, natural gas processing costs associated with third-party facilities, and transportation costs for delivery of our natural gas and liquids production (crude oil, condensate and NGLs) to sales points. Transportation commitments are required to ensure our production is delivered to sales markets and Advantage actively manages our portfolio in conjunction with our future development plans ensuring we are properly diversified to multiple markets. Of our total transportation commitments, \$246 million is required for delivery of natural gas and liquids production to Alberta markets, while Advantage has proactively committed to \$209 million in additional transportation to diversify natural gas production to the Dawn, Empress and Emerson markets, with the objective of reducing price volatility and achieving higher operating netbacks (see "Transportation Expense"). 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.

(\$ millions)	Payments due by period						
	Total	2022 (6 months)	2023	2024	2025	2026	Beyond
Building operating cost ⁽¹⁾	2.1	0.2	0.4	0.4	0.4	0.4	0.3
Processing	56.9	3.2	7.9	10.0	9.5	7.0	19.3
Transportation	455.4	35.3	69.1	69.2	67.5	55.6	158.7
Total commitments	514.4	38.7	77.4	79.6	77.4	63.0	178.3
Performance Awards	13.6	-	6.0	5.9	1.7	-	-
Lease liability	2.3	0.2	0.4	0.5	0.4	0.4	0.4
Financing liability	156.6	6.1	12.0	12.1	12.0	12.0	102.4
Unsecured debentures	25.0	-	-	-	-	-	25.0
Bank indebtedness ⁽²⁾							
- principal	108.0	-	-	108.0	-	-	-
- interest	3.0	1.3	0.9	0.8	-	-	-
Total contractual obligations	308.5	7.6	19.3	127.3	14.1	12.4	127.8
Total future payments	822.9	46.3	96.7	206.9	91.5	75.4	306.1

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

⁽²⁾ As at June 30, 2022, the Corporation's bank indebtedness was governed by a credit facility agreement for a two-year term with a syndicate of financial institutions. The facility is revolving and extendible for a further 364-day period upon an annual review and at the option of the syndicate. If not extended, the credit facility will mature with any outstanding principal payable at the end of the two-year term.



Liquidity and Capital Resources

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

(\$000, except as otherwise indicated)	As at June 30, 2022	As at December 31, 2021
Bank indebtedness	106,776	167,345
Unsecured debentures	15,383	-
Working capital surplus ⁽¹⁾	(77,858)	(6,865)
Net debt ⁽¹⁾	44,301	160,480
Shares outstanding	189,439,820	190,828,976
Shares closing market price (\$/share)	8.00	7.41
Market capitalization	1,515,519	1,414,043
Total capitalization	1,559,820	1,574,523
Net debt to adjusted funds flow ratio ⁽¹⁾	0.1	0.7

⁽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 June 30, 2022, Advantage had a \$350 million Credit Facility of which \$230.5 million or 66% was available after deducting letters of credit of US\$9 million outstanding (see "Bank Indebtedness, Credit Facilities and Working Capital"). The Corporation's adjusted funds flow was utilized to fund our capital expenditure program of \$133.6 million, repurchase and cancel 4.4 million common shares for \$47.0 million, and reduce bank indebtedness by \$60.6 million with a net debt to adjusted funds flow ratio of 0.1 times. Advantage continues to be focused on maintaining a strong 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.

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, unsecured debentures 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 Working Capital

As at June 30, 2022, Advantage had bank indebtedness outstanding of \$106.8 million, a decrease of \$60.6 million since December 31, 2021. 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. On June 17, 2022, the Credit Facilities were renewed 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 Credit Facility has a tenor of two years with a maturity date in June 2024 and is subject to an annual review and extension by the lenders. During the revolving period, a review of the maximum borrowing amount occurs annually on or before May 31 and semi-annually on or before November 30. During the term, no principal payments are required until the revolving period matures in June 2024 in the event of a reduction, or the Credit Facility not being renewed. The Corporation had letters of credit of US\$9 million outstanding at June 30, 2022 (December 31, 2021 - US\$9 million). The Credit Facilities do not contain any financial covenants, but the Corporation is subject to various affirmative and negative covenants under its Credit Facilities. The Corporation was in compliance with all covenants as at June 30, 2022 and December 31, 2021.

Advantage had a working capital surplus of \$77.9 million as at June 30, 2022, an increase in the surplus of \$71.0 million compared to December 31, 2021 largely due to the timing of net capital expenditures and related payments, accompanied with increases in trade and other receivables tied to strong commodity prices. 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.

Unsecured Debentures

On March 25, 2022, the Corporation's subsidiary Entropy entered into an investment agreement with Brookfield Renewable, who provided a capital commitment of \$300 million. Entropy will issue unsecured debentures to fund carbon capture and storage projects that reach final investment decision as certain predetermined return thresholds are met. Under the terms of the agreement, Entropy and the investor have options that provide for the unsecured debentures to be exchanged for common shares at an exchange price of \$10 per share, subject to adjustment in certain circumstances. The investor has the option to exchange the outstanding unsecured debentures for common shares at any time while Entropy may commence a mandatory exchange of unsecured debentures for common shares in advance of an Initial Public Offering ("IPO"). The unsecured debentures have a term of 10 years, if not exchanged for common shares, which are to be repaid at the end of the term in the amount greater of the principal amount and the investor's pro rata share of the fair market value of Entropy, and are non-recourse to Advantage. Each debenture issued by Entropy bears an interest rate of 8% per annum that Entropy can elect to pay in cash or pay-in-kind, due on a quarterly basis. Any paid-in-kind interest is added to the aggregate principal, subject to certain limitations.

On April 5, 2022, Entropy issued unsecured debentures and received an initial \$25.0 million gross proceeds and incurred \$3.8 million of issuance cost. For the three months ended June 30, 2022, Entropy incurred interest of \$0.5 million that was paid in cash.

Other Liabilities

In 2020, Advantage sold a 12.5% interest in the Corporation's Glacier Gas Plant 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 sale and volume commitment agreement is treated as a financing transaction with an effective interest rate of 9.1%. For the six months ended June 30, 2022, the Corporation made cash payments of \$6.0 million (June 30, 2021 - \$6.0 million) under the take-or-pay volume commitment agreement.

As at June 30, 2022, Advantage had a decommissioning liability of \$38.6 million (December 31, 2022 – \$62.5 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 \$59.3 million (December 31, 2021 – \$57.6 million), with 56% of these costs to be incurred beyond 2050. Actual spending on decommissioning for the six months ended June 30, 2022, was \$0.6 million (year ended December 31, 2021 – \$1.0 million). Advantage continues to maintain an industry leading LMR of 26.6, demonstrating that the Corporation has no issues addressing its abandonment, remediation, and reclamation obligations.

Non-controlling interest ("NCI")

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 initial recognition of an intangible asset of \$2.5 million.

For the six months ended June 30, 2022, the net loss and comprehensive loss attributed to non-controlling interest was \$0.2 million (June 30, 2021 - nil).

Shareholders' Equity

On April 7, 2022, the TSX approved the Corporation commencing a normal course issuer bid ("NCIB"). Pursuant to the NCIB, Advantage will purchase for cancellation, from time-to-time, as it considers advisable, up to a maximum of 18,704,019 common shares of the Corporation. The NCIB commenced on April 13, 2022 and will terminate on April 12, 2023 or such earlier time as the NCIB is completed or terminated at the option of Advantage. Purchases pursuant to the NCIB will be made on the open market through the facilities of the TSX or alternative trading systems. The price that Advantage will pay for any common shares under the NCIB will be the prevailing market price on the TSX at the time of such purchase. Common shares acquired under the NCIB will be cancelled. For the six months ended June 30, 2022, the Corporation purchased 4.4 million common shares for cancellation at an average price of \$10.57 per common share for a total of \$47.0 million. From June 30, 2022 to July 28, 2022, Advantage has repurchased an additional 1.5 million common shares for a total of \$14.0 million.

As at June 30, 2022, a total of 4.0 million Performance Share Units were outstanding under the Restricted and Performance Award Incentive Plan, which represents 2.1% of Advantage's total outstanding common shares. During April 2022, 1,585,888 Performance Share Units matured and were settled with the issuance of 3,056,992 common shares.

As at July 28, 2022, Advantage had 187.9 million common shares outstanding.

Quarterly Performance

	2022		2021				2020	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
(\$000, except as otherwise indicated)								
Financial Statement Highlights								
Natural gas and liquids sales	314,297	177,569	159,255	134,354	99,053	99,373	73,203	60,063
Net income (loss) and comprehensive income (loss)	164,234	19,496	359,956	43,098	8,725	(425)	24,168	(21,606)
per basic share ⁽²⁾	0.86	0.10	1.90	0.23	0.04	0.00	0.13	(0.11)
Basic weighted average shares (000)	190,415	190,829	190,829	190,829	190,501	188,113	188,113	188,113
Cash provided by operating activities	157,439	109,157	67,464	46,988	57,134	51,566	30,260	25,271
Cash provided by (used in) financing activities	(37,556)	(50,769)	(27,423)	(26,960)	(21,480)	(7,548)	5,071	(15,436)
Cash used in investing activities	(80,720)	(76,983)	(44,939)	(36,940)	(20,834)	(15,069)	(37,325)	(11,220)
Other Financial Highlights								
Adjusted funds flow ⁽¹⁾	187,056	108,878	71,227	63,353	46,266	53,978	31,738	23,571
per boe ⁽¹⁾	34.05	22.85	16.15	13.77	10.17	12.04	7.92	5.76
per basic share ⁽¹⁾⁽²⁾	0.98	0.57	0.37	0.33	0.24	0.29	0.17	0.13
Net capital expenditures ⁽¹⁾	47,570	86,014	58,384	31,352	22,482	37,185	32,390	21,252
Free cash flow ⁽¹⁾	139,486	22,864	12,843	32,001	23,784	16,793	(652)	2,319
Working capital (surplus) deficit ⁽¹⁾	77,858	19,115	(6,865)	(29,914)	(27,595)	(27,516)	3,216	8,077
Bank indebtedness	106,776	117,558	167,345	193,828	219,856	240,428	247,105	241,161
Net debt ⁽¹⁾	44,301	136,673	160,480	163,914	192,261	212,912	250,321	249,238
Operating Highlights								
Production								
Crude oil (bbls/d)	2,858	997	816	1,038	1,163	1,395	1,653	1,812
Condensate (bbls/d)	1,128	1,057	1,012	1,002	637	721	653	605
NGLs (bbls/d)	3,392	2,854	2,524	2,684	2,490	2,493	2,234	2,312
Total liquids production (bbls/d)	7,378	4,908	4,352	4,724	4,290	4,609	4,540	4,729
Natural gas (mcf/d)	317,976	288,226	261,530	271,804	274,328	271,262	233,949	238,315
Total production (boe/d)	60,374	52,946	47,940	50,025	50,011	49,819	43,532	44,448
Average prices (including realized derivatives)								
Natural gas (\$/mcf)	6.75	5.04	4.17	3.48	2.81	3.07	2.45	1.81
Liquids (\$/bbl)	107.83	82.48	50.92	49.68	47.21	48.11	37.62	34.59
Operating Netback (\$/boe)								
Natural gas and liquids sales	57.21	37.26	36.11	29.19	21.76	22.16	18.28	14.69
Realized gains (losses) on derivatives	(8.50)	(2.19)	(8.41)	(5.21)	(2.12)	(0.87)	(0.74)	(1.03)
Processing and other income	0.41	0.30	-	-	-	-	-	-
Net sales of purchased natural gas	-	0.01	-	-	-	-	-	-
Royalty expense	(6.17)	(3.42)	(2.02)	(1.75)	(1.20)	(1.13)	(0.77)	(0.63)
Operating expense	(2.75)	(2.79)	(2.92)	(2.38)	(2.21)	(2.45)	(2.68)	(2.35)
Transportation expense	(4.44)	(4.36)	(4.48)	(3.86)	(3.72)	(3.57)	(3.62)	(3.12)
Operating netback ⁽¹⁾	35.76	24.81	18.28	15.99	12.51	14.14	10.47	7.56

(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 second quarter of 2022 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; however, new natural gas production came onstream late in 2020 due to minor equipment delays 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 but then subsequently increased in the first and second quarters of 2022 with a return to normal production levels and bringing onstream newly drilled wells.

Quarterly Performance (continued)

Natural gas and liquids sales and adjusted funds flow were impacted in 2020 by the decrease in commodity prices due to the COVID-19 pandemic which escalated at the end of the first quarter and continued through the year. Natural gas and liquids sales and adjusted funds flow increased significantly in the first quarter of 2021 through the second quarter of 2022 as a result of increased production accompanied with strong natural gas and liquids 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. As a result of strong commodity prices, the Corporation generated significant net income in the first half of 2022.

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

The Corporation has adopted the following accounting policies during the three and six months ended June 30, 2022:

Unsecured debentures

Unsecured debentures are measured at fair value and are separated out into their liability and derivative liability components. The unsecured debentures liability is recorded on the consolidated statement of financial position at amortized cost. After initial recognition, the Corporation will accrete the unsecured debentures over their contractual term using the effective interest rate method. Cost associated with the issuance of unsecured debentures are included in the initial carrying amount of the liability.

The unsecured debentures derivative liability is recorded on the consolidated statement of financial position at fair value. The exchange features of the unsecured debentures are determined to be an embedded derivative liability and are separately valued and accounted for on the statement of financial position with changes in fair value recognized through profit and loss. The Corporation determines the fair value of the derivative liability using a Black Scholes model. Inputs used in the Black Scholes model involves management's judgment and may impact net income and comprehensive income of the Corporation.

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 three and six months ended June 30, 2022.

Evaluation of Disclosure Controls and Procedures

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

Evaluation of Internal Controls over Financial Reporting

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

Advantage's Chief Executive Officer and Chief Financial Officer are required to disclose any change in the ICFR that occurred during our most recent interim period that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR. No material changes in the ICFR were identified during the interim period ended June 30, 2022, 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:

(\$000)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Cash provided by operating activities	157,439	57,134	266,596	108,700
Expenditures on decommissioning liability	103	328	554	342
Changes in non-cash working capital	29,514	(11,196)	28,784	(8,798)
Adjusted funds flow	187,056	46,266	295,934	100,244

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:

(\$000)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Cash used in investing activities	80,720	20,834	157,703	35,903
Changes in non-cash working capital	(33,150)	1,625	(24,124)	3,741
Project funding received	-	23	5	20,023
Net capital expenditures	47,570	22,482	133,584	59,667

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:

(\$000)	Three months ended		Six months ended	
	June 30		June 30	
	2022	2021	2022	2021
Cash provided by operating activities	157,439	57,134	266,596	108,700
Cash used in investing activities	(80,720)	(20,834)	(157,703)	(35,903)
Changes in non-cash working capital	62,664	(12,821)	52,908	(12,539)
Expenditures on decommissioning liability	103	328	554	342
Project funding received	-	(23)	(5)	(20,023)
Free cash flow	139,486	23,784	162,350	40,577

Operating Netback

Operating netback is comprised of natural gas and liquids sales, realized gains (losses) on derivatives, processing and other income, net sales of purchased natural gas, 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:

(\$000)	Three months ended		Six months ended	
	June 30		June 30	
	2022	2021	2022	2021
Natural gas and liquids sales	314,297	99,053	491,866	198,426
Realized losses on derivatives	(46,679)	(9,626)	(57,122)	(13,527)
Processing and other income	2,277	-	3,715	-
Net sales of purchased natural gas	-	-	70	-
Royalty expense	(33,924)	(5,456)	(50,221)	(10,543)
Operating expense	(15,088)	(10,071)	(28,381)	(21,056)
Transportation expense	(24,378)	(16,918)	(45,131)	(32,918)
Operating netback	196,505	56,982	314,796	120,382

Specified Financial Measures (continued)

Non-GAAP Ratios

Adjusted Funds Flow per Share

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.

(\$000, except as otherwise indicated)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Adjusted funds flow	187,056	46,266	295,934	100,244
Weighted average shares outstanding (000)	190,415	190,501	190,621	189,313
Adjusted funds flow per share (\$/share)	0.98	0.24	1.55	0.53

Adjusted Funds Flow per BOE

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.

(\$000, except as otherwise indicated)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Adjusted funds flow	187,056	46,266	295,934	100,244
Total production (boe/d)	60,374	50,011	56,681	49,916
Days in period	91	91	181	181
Total production (boe)	5,494,034	4,551,001	10,259,261	9,034,796
Adjusted funds flow per BOE (\$/boe)	34.05	10.17	28.85	11.10

Operating netback per BOE

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.

(\$000, except as otherwise indicated)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Operating netback	196,505	56,982	314,796	120,382
Total production (boe/d)	60,374	50,011	56,681	49,916
Days in period	91	91	181	181
Total production (boe)	5,494,034	4,551,001	10,259,261	9,034,796
Operating netback per BOE (\$/boe)	35.76	12.51	30.67	13.32

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.

(\$000, except as otherwise indicated)	Three months ended June 30		Six months ended June 30	
	2022	2022	2022	2021
Net capital expenditures	47,570	22,482	133,584	59,667
Adjusted funds flow	187,056	46,266	295,934	100,244
Payout ratio	0.3	0.5	0.5	0.6

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.

(\$000, except as otherwise indicated)	June 30	June 30
	2022	2021
Net Debt	44,301	192,261
Adjusted funds flow (prior four quarters)	430,514	155,553
Net debt to adjusted funds flow ratio	0.1	1.2

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. In 2022, the Corporation reclassified deferred share units which were previously included in trade and other accrued liabilities, to provisions and other liabilities. Management determined that by reclassifying the deferred share units to provisions and other liabilities, users can better assess the Corporation's short-term operating requirements. Comparative figures have been restated to reflect the reclassification.

A summary of working capital as at June 30, 2022 and December 31, 2021 is as follows:

	June 30	December 31
	2022	2021
Cash and cash equivalents	45,806	25,238
Trade and other receivables	106,934	54,769
Prepaid expenses and deposits	6,912	3,483
Trade and other accrued liabilities	(81,794)	(76,625)
Working capital surplus	77,858	6,865

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. Comparative figures have been restated to reflect the reclassification of deferred share units in trade and other accrued liabilities which affects net debt.

A summary of the reconciliation of net debt as at June 30, 2022 and December 31, 2021 is as follows:

	June 30 2022	December 31 2021
Bank indebtedness	106,776	167,345
Unsecured debentures	15,383	-
Working capital surplus deficit	(77,858)	(6,865)
Net debt	44,301	160,480

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 IFRS 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
- Net sales of purchased natural gas per boe
- Processing and other income 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 "Mcf" 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
IP30	- average initial production rate over 30 consecutive days
nm	- not meaningful information

Forward-Looking Information and Other Advisories

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

In particular, forward-looking statements in this MD&A include, but are not limited to, statements about our strategy, plans, objectives, priorities and focus and the benefits to be derived therefrom; the Corporation's 2022 transportation guidance and the anticipated benefits to be derived from the Corporation's additional transportation commitments; the anticipated benefits to be derived from the Corporation's commodity risk management and financial risk management derivative contracts; Advantage's expectations that royalties paid on new wells drilled in Alberta will be low until the initial capital investment is recovered and that due to the higher commodity price environment and well productivity new wells will quickly pay out the Corporation's initial capital investment; the anticipated number of common shares that Advantage will purchase for cancellation pursuant to its NCIB; the Corporation's forecasted 2022 natural gas market exposure including the anticipated effective production rate; 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 number of wells that the Corporation anticipates will be brought on to production; the anticipated timing of when the Corporation's two wells at Valhalla will be completed and placed on production; Management's expectations that the Corporation's Valhalla asset will play a pivotal role in the Corporation's liquids-rich gas development plan; the Corporation's expectations that the two major processing facilities connected to its Wembley asset will provide sufficient gas processing capacity for future growth; the anticipated benefits to be derived from the Corporation's Progress compressor site and liquids handling hub; 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 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; the Corporation's expectations that it is well positioned to continue successfully executing its multi-year development plan; Advantage's anticipated means of managing its capital structure; Advantage's expectations that its financial assessment process will enable the Corporation to mitigate risks; Advantage's expectations that its cash provided by operating activities and its available Credit Facilities will allow it to meet its future obligations as they become due; that Entropy will issue future unsecured debentures to fund carbon capture and storage projects and Entropy's expectation that such projects will reach financial investment decision; the anticipated undiscounted, uninflated cash flows required to settle the Corporation's decommissioning liability and the anticipated timing that such costs will be incurred; the statements under "critical accounting estimates" in this MD&A; and other matters.

These forward-looking statements involve substantial known and unknown risks and uncertainties, many of which are beyond our control, including, but not limited to, risks related to changes in general economic conditions (including as a result of demand and supply effects resulting from the COVID-19 pandemic and the actions of OPEC and non-OPEC countries) which will, among other things, impact demand for and market prices of the Corporation's products, market and business conditions; continued volatility in market prices for oil and natural gas; the impact of significant declines in market prices for oil and natural gas; stock market volatility; changes to legislation and regulations and how they are interpreted and enforced; our ability to comply with current and future environmental or other laws; actions by governmental or regulatory authorities including increasing taxes, regulatory approvals, changes in investment or other regulations; changes in tax laws, royalty regimes and incentive programs relating to

Forward-Looking Information and Other Advisories (continued)

the oil and gas industry; the effect of acquisitions; our success at acquisition, exploitation and development of reserves; unexpected drilling results; failure to achieve production targets on timelines anticipated or at all; changes in commodity prices, currency exchange rates, capital expenditures, reserves or reserves estimates and debt service requirements; the occurrence of unexpected events involved in the exploration for, and the operation and development of, oil and gas properties; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; changes or fluctuations in production levels; individual well productivity; delays in anticipated timing of drilling and completion of wells; lack of available capacity on pipelines; delays in timing of facility installation; potential disruption of the Corporation's operations as a result of the COVID-19 pandemic through potential loss of manpower and labour pools resulting from quarantines in the Corporation's operating areas, risk on the financial capacity of the Corporation's contract counterparties and potentially their ability to perform contractual obligations, delays in obtaining stakeholder and regulatory approvals; performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information; the failure to extend the credit facilities at each annual review; competition from other producers; the lack of availability of qualified personnel or management; ability to access sufficient capital from internal and external sources; credit risk; the number of common shares that Advantage will purchase for cancellation pursuant to its NCIB will be less than anticipated; the Corporation's two wells at Valhalla will not be completed and placed on production when anticipated; the Corporation's Valhalla asset will not play a pivotal role in the Corporation's liquids-rich gas development plan; that the two major processing facilities connected to the Corporation's Wembley asset will not provide sufficient gas processing capacity for future growth; the construction of the Corporation's Progress compressor site and liquids handling hub will not be completed when anticipated; the risk that the Corporation is not properly diversified to multiple markets; the Corporation will be unable to satisfy all liabilities and commitments and meet future obligations as they become due; the risk that the undiscounted, uninflated cash flows required to settle the Corporation's decommissioning liability will be greater than expected; the risk that Advantage's new wells may not payout its capital investment when anticipated, or at all; the risk that Advantage's cash provided by operating activities and its Credit Facilities will not allow the Corporation to meet its future obligations as they become due; the risk that Entropy's carbon capture and storage projects may not reach final investment decision; 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.

The future acquisition by the Corporation of the Corporation's common shares pursuant to its NCIB, if any, and the level thereof is uncertain. Any decision to acquire common shares of the Corporation pursuant to the NCIB will be subject to the discretion of the board of directors of the Corporation and may depend on a variety of factors, including, without limitation, the Corporation's business performance, financial condition, financial requirements, growth plans, expected capital requirements and other conditions existing at such future time including, without limitation, contractual restrictions and satisfaction of the solvency tests imposed on the Corporation under applicable corporate law. There can be no assurance of the number of common shares of the Corporation that the Corporation will acquire pursuant to its NCIB, if any, in the future.

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 produce, 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

Forward-Looking Information and Other Advisories (continued)

regulatory approvals; royalty regimes; future exchange rates; royalty rates; future operating costs; availability of skilled labour; availability of drilling and related equipment; timing and amount of capital expenditures; the ability to efficiently integrate assets acquired through acquisitions; the impact of increasing competition; the price of crude oil and natural gas; that the Corporation will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Corporation's conduct and results of operations will be consistent with its expectations; that the Corporation will have the ability to develop the Corporation's crude oil and natural gas properties in the manner currently contemplated; availability of pipeline capacity; that current or, where applicable, proposed assumed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; that the two major processing facilities connected to its Wembley asset will provide sufficient gas processing capacity for future growth; that the Corporation's cash provided by operating activities and available Credit Facilities will be able to satisfy all of the Corporation's liabilities, commitments and future obligations as they become due; that the unsecured debentures that maybe issued by Entropy will fund its carbon capture and storage projects; and that the estimates of the Corporation's production, reserves and resources volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects.

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

This MD&A contains 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 2022 royalty rate guidance and 2022 transportation guidance; and the anticipated undiscounted, uninflated cash flows required to settle the Corporation's decommissioning liability; 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

Forward-Looking Information and Other Advisories (continued)

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, such as IP30, 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.

July 28, 2022



CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2022 and 2021

Advantage Energy Ltd.

Consolidated Statements of Financial Position

(unaudited, expressed in thousands of Canadian dollars)

	Notes	June 30 2022	December 31 2021
ASSETS			
Current assets			
Cash and cash equivalents	3	45,806	25,238
Trade and other receivables		106,934	54,769
Prepaid expenses and deposits		6,912	3,483
Derivative asset	8	-	282
Total current assets		159,652	83,772
Non-current assets			
Derivative asset	8	113,759	57,699
Exploration and evaluation assets	4	20,713	20,713
Right-of-use assets	5	1,802	1,879
Intangible assets	6	3,469	2,991
Property, plant and equipment	7	1,870,370	1,827,936
Total non-current assets		2,010,113	1,911,218
Total assets		2,169,765	1,994,990
LIABILITIES			
Current liabilities			
Trade and other accrued liabilities		81,794	76,625
Derivative liability	8	47,304	2,765
Current portion of provisions and other liabilities	11	12,812	11,224
Total current liabilities		141,910	90,614
Non-current liabilities			
Derivative liability	8	7,821	12,315
Bank indebtedness	9	106,776	167,345
Unsecured debentures	10	15,383	-
Unsecured debentures - derivative liability	10	5,779	-
Provisions and other liabilities	11	138,496	168,314
Deferred income tax liability	12	152,713	96,284
Total non-current liabilities		426,968	444,258
Total liabilities		568,878	534,872
SHAREHOLDERS' EQUITY			
Share capital	13	2,323,139	2,370,716
Contributed surplus		114,931	110,315
Deficit		(839,331)	(1,023,244)
Total shareholders' equity attributable to Advantage shareholders		1,598,739	1,457,787
Non-controlling interest	14	2,148	2,331
Total shareholders' equity		1,600,887	1,460,118
Total liabilities and shareholders' equity		2,169,765	1,994,990

Commitments (note 19)

See accompanying Notes to the Condensed Consolidated Financial Statements

Advantage Energy Ltd.

Consolidated Statements of Comprehensive Income (Loss)

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

	Notes	Three months ended June 30		Six months ended June 30	
		2022	2021	2022	2021
Revenues					
Natural gas and liquids sales	17(a)	314,297	99,053	491,866	198,426
Sales of purchased natural gas	17(b)	-	-	4,826	-
Processing and other income		2,277	-	3,715	-
Royalty expense		(33,924)	(5,456)	(50,221)	(10,543)
Natural gas and liquids revenue		282,650	93,597	450,186	187,883
Gains (losses) on derivatives	8	20,027	(16,468)	(41,389)	(46,647)
Total revenues		302,677	77,129	408,797	141,236
Expenses					
Operating expense		15,088	10,071	28,381	21,056
Transportation expense		24,378	16,918	45,131	32,918
Natural gas purchases	17(b)	-	-	4,756	-
General and administrative expense		5,222	5,384	10,476	9,163
Share-based compensation expense	15	1,682	637	3,088	1,669
Depreciation expense	5,7	37,248	27,182	67,644	53,869
Finance expense		4,627	5,592	9,162	11,535
Total expenses		88,245	65,784	168,638	130,210
Income before taxes and non-controlling interest		214,432	11,345	240,159	11,026
Income tax expense	12	(50,198)	(2,620)	(56,429)	(2,726)
Net income and comprehensive income before non-controlling interest		164,234	8,725	183,730	8,300
Net income (loss) and comprehensive income (loss) attributable to:					
Advantage shareholders		164,334	8,725	183,913	8,300
Non-controlling interest	14	(100)	-	(183)	-
Net income per share attributable to Advantage shareholders					
Basic	16	0.86	0.04	0.96	0.04
Diluted	16	0.83	0.04	0.93	0.04

See accompanying Notes to the Condensed Consolidated Financial Statements

Advantage Energy Ltd.

Consolidated Statements of Changes in Shareholders' Equity

(unaudited, expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Deficit	Non-controlling interest	Total shareholders' equity
Balance, December 31, 2021	2,370,716	110,315	(1,023,244)	2,331	1,460,118
Net income and comprehensive income	-	-	183,913	(183)	183,730
Share-based compensation (note 15(b))	-	4,014	-	-	4,014
Settlement of Performance Share Units	6,948	(6,948)	-	-	-
Common shares repurchased (note 13(c))	(54,525)	7,550	-	-	(46,975)
Balance, June 30, 2022	2,323,139	114,931	(839,331)	2,148	1,600,887

	Share capital	Contributed surplus	Deficit	Non-controlling interest	Total shareholders' equity
Balance, December 31, 2020	2,360,647	114,280	(1,434,767)	-	1,040,160
Net income and comprehensive income	-	-	8,300	-	8,300
Share-based compensation (note 15(b))	-	3,284	-	-	3,284
Settlement of Performance Share Units	10,069	(10,751)	-	-	(682)
Issuance of Entropy common shares to non-controlling interest (note 14)	-	-	-	2,500	2,500
Balance, June 30, 2021	2,370,716	106,813	(1,426,467)	2,500	1,053,562

See accompanying Notes to the Condensed Consolidated Financial Statements

Advantage Energy Ltd.

Consolidated Statements of Cash Flows

(unaudited, expressed in thousands of Canadian dollars)

	Notes	Three months ended June 30		Six months ended June 30	
		2022	2021	2022	2021
Operating Activities					
Income before taxes and non-controlling interest		214,432	11,345	240,159	11,026
Add items not requiring cash:					
Unrealized (gains) losses on derivatives	8	(66,706)	6,842	(15,733)	33,120
Share-based compensation expense	15(b)	1,682	637	3,088	1,669
Depreciation expense	5,7	37,248	27,182	67,644	53,869
Accretion of decommissioning liability	11	400	260	776	560
Expenditures on decommissioning liability	11	(103)	(328)	(554)	(342)
Changes in non-cash working capital	18	(29,514)	11,196	(28,784)	8,798
Cash provided by operating activities		157,439	57,134	266,596	108,700
Financing Activities					
Common shares repurchased	13	(46,975)	-	(46,975)	-
Decrease in bank indebtedness	9,18	(10,782)	(20,572)	(60,569)	(27,249)
Net proceeds from unsecured debentures	10	21,162	-	21,162	-
Principal repayment of lease liability	11,18	(51)	(76)	(152)	(143)
Principal repayment of financing liability	11,18	(910)	(832)	(1,791)	(1,636)
Cash used in financing activities		(37,556)	(21,480)	(88,325)	(29,028)
Investing Activities					
Payments on property, plant and equipment	7,18	(80,442)	(20,662)	(157,230)	(55,572)
Payments on exploration and evaluation assets	4	-	(195)	-	(354)
Payments on intangible assets	6	(278)	-	(478)	-
Project funding received	11	-	23	5	20,023
Cash used in investing activities		(80,720)	(20,834)	(157,703)	(35,903)
Increase in cash and cash equivalents		39,163	14,820	20,568	43,769
Cash and cash equivalents, beginning of period		6,643	32,228	25,238	3,279
Cash and cash equivalents, end of period		45,806	47,048	45,806	47,048

See accompanying Notes to the Condensed Consolidated Financial Statements

Advantage Energy Ltd.

Notes to the Condensed Consolidated Financial Statements

June 30, 2022 (unaudited)

All tabular amounts expressed in thousands of Canadian dollars, except as otherwise indicated.

1. Business and structure of Advantage Energy Ltd.

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

2. Basis of preparation

(a) Statement of compliance

The Corporation prepares its condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as defined in the Chartered Professional Accountants Canada Handbook (the "CPA Canada Handbook"). The CPA Canada Handbook incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), including IAS 34, Interim Financial Reporting. The Corporation has consistently applied the same accounting policies as those set out in the audited consolidated financial statements for the year ended December 31, 2021, except as noted below. Certain disclosures included in the notes to the annual consolidated financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2021, which have been prepared in accordance with IFRS as issued by the IASB. Certain information provided for the prior period has been reclassified to conform to the presentation adopted for the periods ended June 30, 2022.

The accounting policies applied in these condensed consolidated financial statements are based on IFRS issued and outstanding as of July 28, 2022, the date the Board of Directors approved the statements.

(b) Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis, except as detailed in the Corporation's accounting policies in the audited consolidated financial statements for the year ended December 31, 2021 and note 10.

The methods used to measure fair values of derivative instruments are discussed in note 8. The methods used to measure the fair value of the Corporation's natural gas and liquids properties are discussed in note 7.

(c) Functional and presentation currency

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

(d) Basis of consolidation

These condensed consolidated financial statements include the accounts of the Corporation and all subsidiaries over which it has control, including Entropy Inc. ("Entropy"), a private Canadian corporation of which Advantage owned 90% of the common shares (note 14). All inter-corporate balances, income and expenses resulting from inter-corporate transactions are eliminated.

2. Basis of preparation (continued)

(e) New significant accounting policies

Unsecured debentures

Unsecured debentures are measured at fair value and are separated out into their liability and derivative liability components. The unsecured debentures liability is recorded on the consolidated statement of financial position at amortized cost. After initial recognition, the Corporation will accrete the unsecured debentures over their contractual term using the effective interest rate method. Costs associated with the issuance of unsecured debentures are included in the initial carrying amount of the liability.

The unsecured debentures derivative liability is recorded on the consolidated statement of financial position at fair value. The exchange features of the unsecured debentures (note 10) are determined to be an embedded derivative liability and are separately valued and accounted for on the statement of financial position with changes in fair value recognized through profit and loss. The Corporation determines the fair value of the derivative liability using a Black Scholes model. Inputs used in the Black Scholes model involves management's judgment and may impact net income and comprehensive income of the Corporation.

3. Cash and cash equivalents

	June 30	December 31
	2022	2021
Cash at financial institutions	45,806	25,238

Cash at financial institutions earn interest at floating rates based on daily deposit rates. As at June 30, 2022, cash at financial institutions included US\$20.0 million (December 31, 2021 - US\$6.3 million). The Corporation only deposits cash with major financial institutions of high-quality credit ratings. Included in the cash and cash equivalents balance is \$17.3 million held by the Corporation's subsidiary, Entropy.

4. Exploration and evaluation assets

Balance at December 31, 2020	20,580
Additions	677
Lease expiries	(84)
Transferred to property, plant and equipment (note 7)	(460)
Balance at December 31, 2021 and June 30, 2022	20,713

5. Right-of-use assets

Cost	Buildings	Other	Total
Balance at December 31, 2020	2,318	186	2,504
Additions	-	169	169
Expired leases	-	(35)	(35)
Balance at December 31, 2021	2,318	320	2,638
Additions	-	92	92
Balance at June 30, 2022	2,318	412	2,730
Accumulated depreciation			
Balance at December 31, 2020	396	72	468
Depreciation	285	41	326
Expired leases	-	(35)	(35)
Balance at December 31, 2021	681	78	759
Depreciation	142	27	169
Balance at June 30, 2022	823	105	928
Net book value			
At December 31, 2021	1,637	242	1,879
At June 30, 2022	1,495	307	1,802

6. Intangible assets

Cost		
Balance at December 31, 2020		-
Intellectual property acquisition		2,500
Research and development additions		491
Balance at December 31, 2021		2,991
Research and development additions		478
Balance at June 30, 2022		3,469
Accumulated amortization		
Balance at December 31, 2021 and June 30, 2022		-
Net book value		
At December 31, 2021		2,991
At June 30, 2022		3,469

The Corporation has not incurred amortization on its intangible assets as the assets are not available for use. Amortization will commence upon the Phase 1 Glacier CCS project being placed in-service.

7. Property, plant and equipment

Cost	Natural Gas and Liquids Properties	Furniture & Equipment	Total
Balance at December 31, 2020	2,811,316	6,692	2,818,008
Additions	148,154	81	148,235
Capitalized share-based compensation (note 15(b))	2,051	-	2,051
Changes in decommissioning liability (note 11(e))	1,505	-	1,505
Transferred from exploration and evaluation assets (note 4)	460	-	460
Balance at December 31, 2021	2,963,486	6,773	2,970,259
Additions	132,840	266	133,106
Capitalized share-based compensation (note 15(b))	926	-	926
Changes in decommissioning liability (note 11(e))	(24,123)	-	(24,123)
Balance at June 30, 2022	3,073,129	7,039	3,080,168
Accumulated depreciation			
Balance at December 31, 2020	1,371,238	5,278	1,376,516
Depreciation	106,227	233	106,460
Impairment reversal	(340,653)	-	(340,653)
Balance at December 31, 2021	1,136,812	5,511	1,142,323
Depreciation	67,331	144	67,475
Balance at June 30, 2022	1,204,143	5,655	1,209,798
Net book value			
At December 31, 2021	1,826,674	1,262	1,827,936
At June 30, 2022	1,868,986	1,384	1,870,370

During the six months ended June 30, 2022, Advantage capitalized general and administrative expenditures directly related to development activities of \$3.6 million, included in additions (year ended December 31, 2021 - \$7.8 million).

Advantage included future development costs of \$2.0 billion (December 31, 2021 - \$2.0 billion) in property, plant and equipment costs subject to depreciation.

8. Financial risk management

As at June 30, 2022, there were no significant differences between the carrying amounts reported on the consolidated statement of financial position and the estimated fair values of the Corporation's financial instruments due to the short terms to maturity and the floating interest rate on the Corporation's bank indebtedness.

Fair value is determined following a three-level hierarchy:

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

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

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

8. Financial risk management (continued)

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

	Three months ended		Six months ended	
	June 30		June 30	
	2022	2021	2022	2021
Realized gains (losses) on derivatives				
Natural gas	(44,519)	(6,754)	(53,868)	(9,218)
Crude oil	(1,943)	(3,787)	(3,048)	(5,899)
Foreign exchange	(217)	1,093	(102)	1,932
Interest rate	-	(178)	(104)	(342)
Total	(46,679)	(9,626)	(57,122)	(13,527)
Unrealized gains (losses) on derivatives				
Natural gas	29,865	(17,476)	(39,401)	(25,849)
Crude oil	908	(4,290)	(308)	(8,407)
Natural gas embedded derivative	37,939	16,609	56,060	2,555
Foreign exchange	(2,006)	(1,856)	(754)	(1,745)
Interest rate	-	171	136	326
Total	66,706	(6,842)	15,733	(33,120)
Gains (losses) on derivatives				
Natural gas	(14,654)	(24,230)	(93,269)	(35,067)
Crude oil	(1,035)	(8,077)	(3,356)	(14,306)
Natural gas embedded derivative	37,939	16,609	56,060	2,555
Foreign exchange	(2,223)	(763)	(856)	187
Interest rate	-	(7)	32	(16)
Total	20,027	(16,468)	(41,389)	(46,647)

8. Financial risk management (continued)

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

	June 30 2022	December 31 2021
Derivative type		
Natural gas derivative liability	(52,573)	(13,172)
Crude oil derivative asset (liability)	(288)	20
Natural gas embedded derivative asset	113,759	57,699
Foreign exchange derivative liability	(2,264)	(1,510)
Interest rate derivative liability	-	(136)
Net derivative asset	58,634	42,901
Consolidated statement of financial position classification		
Current derivative asset	-	282
Non-current derivative asset	113,759	57,699
Current derivative liability	(47,304)	(2,765)
Non-current derivative liability	(7,821)	(12,315)
Net derivative asset	58,634	42,901

8. Financial risk management (continued)

(a) Commodity price risk

The Corporation's commodity derivative contracts are classified as Level 2 within the fair value hierarchy. As at June 30, 2022 (other than as indicated), the Corporation had the following commodity derivative contracts in place:

Description of Derivative	Term	Volume	Price
Natural gas - Henry Hub NYMEX			
Fixed price swap	April 2022 to October 2022	130,000 Mcf/d	US \$4.23/Mcf
Fixed price swap	November 2022 to March 2023	105,000 Mcf/d	US \$4.98/Mcf
Fixed price swap	April 2023 to October 2023	25,000 Mcf/d	US \$3.35/Mcf
Natural gas - AECO/Henry Hub Basis Differential			
Basis swap	April 2023 to December 2024	40,000 Mcf/d	Henry Hub less US \$1.19/Mcf
Crude oil - WTI NYMEX			
Fixed price swap	July 2022 to December 2022	250 bbls/d	US \$96.50/bbl
Collar	April 2022 to December 2022	250 bbls/d	US \$80.00/bbl - US \$115.00/bbl

Natural Gas - Embedded Derivative

Advantage has a long-term natural gas supply agreement under which Advantage will supply 25,000 MMBtu/d of natural gas for a 10-year period, commencing 2023. Commercial terms of the agreement are based upon a spark-spread pricing formula, providing Advantage exposure to PJM electricity prices, back-stopped with a natural gas price collar. The contract contains an embedded derivative as a result of the spark-spread pricing formula and the natural gas price collar. The Corporation defined the host contract as a natural gas sales arrangement with a fixed price of US \$2.50/MMBtu. The Corporation will realize gains or losses when the price received under the contract deviates from US \$2.50/MMBtu. As at June 30, 2022, the fair value of the natural gas embedded derivative resulted in an asset of \$113.8 million (December 31, 2021 – \$57.7 million asset).

The Corporation's natural gas embedded derivative contract is classified as Level 3 within the fair value hierarchy. The Corporation determines the fair value of the embedded derivative contract by utilizing an observable 5-year PJM electricity forecast. The remaining unobservable period beyond 5-years is estimated using the implied inflation rate in the 5-year PJM electricity forecast. At June 30, 2022, the implied inflation rate in the 5-year PJM power forecast averaged 1% per year. If the implied inflation rate in the 5-year PJM electricity forecast changed by 1%, the fair value of the embedded derivative would increase/decrease by \$3.0 million. Had the PJM electricity power forecast increased or decreased by 10%, this would have resulted in a \$8.2 million increase, or a \$13.8 million decrease, respectively.

8. Financial risk management (continued)

(b) Foreign exchange risk

The Corporation's foreign exchange derivative contracts are classified as Level 2 within the fair value hierarchy. As at June 30, 2022, the Corporation had the following foreign exchange derivative contracts in place:

Description of Derivative	Term	Notional Amount	Rate
Forward rate - CAD/USD			
Average rate currency swap	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
Average rate currency swap	May 2022 to March 2023	US \$ 1,000,000/month	1.2850

(c) Capital management

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 provisions 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.

In 2022, the Corporation reclassified deferred share units which were previously included in trade and other accrued liabilities, to provisions and other liabilities. Management determined that by reclassifying the deferred share units to provisions and other liabilities, users can better assess the Corporation's short-term operating requirements. Comparative figures have been restated to reflect the reclassification.

A summary of working capital as at June 30, 2022 and December 31, 2021 is as follows:

	June 30 2022	December 31 2021
Cash and cash equivalents	45,806	25,238
Trade and other receivables	106,934	54,769
Prepaid expenses and deposits	6,912	3,483
Trade and other accrued liabilities	(81,794)	(76,625)
Working capital surplus	77,858	6,865

8. Financial risk management (continued)

(c) Capital management (continued)

Net Debt

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

A summary of the reconciliation of net debt as at June 30, 2022 and December 31, 2021 is as follows:

	June 30 2022	December 31 2021
Bank indebtedness (note 9)	106,776	167,345
Unsecured debentures (note 10)	15,383	-
Working capital surplus	(77,858)	(6,865)
Net debt	44,301	160,480

Advantage's capital structure as at June 30, 2022 and December 31, 2021 is as follows:

	June 30 2022	December 31 2021
Net debt	44,301	160,480
Shares outstanding (note 13)	189,439,820	190,828,976
Share closing market price (\$/share)	8.00	7.41
Market Capitalization	1,515,519	1,414,043
Total Capitalization	1,559,820	1,574,523

9. Bank indebtedness

	June 30 2022	December 31 2021
Revolving credit facility	108,000	168,000
Discount on bankers' acceptance and other fees	(1,224)	(655)
Balance, end of period	106,776	167,345

On June 17, 2022, the Credit Facilities were renewed 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 Credit Facility has a tenor of two years with a maturity date in June 2024 and is subject to an annual review and extension by the lenders. During the revolving period, a review of the maximum borrowing amount occurs annually on or before May 31 and semi-annually on or before November 30. During the term, no principal payments are required until the revolving period matures in June 2024 in the event of a reduction, or the Credit Facility not being renewed. The Corporation had letters of credit of US\$9 million outstanding at June 30, 2022 (December 31, 2021 - US\$9 million). The Credit Facilities do not contain any financial covenants, but the Corporation is subject to various affirmative and negative covenants under its Credit Facilities. The Corporation was in compliance with all covenants as at June 30, 2022 and December 31, 2021.

10. Unsecured debentures

On March 25, 2022, the Corporation's subsidiary Entropy entered into an investment agreement with Brookfield Renewable, who provided a capital commitment of \$300 million. Entropy will issue unsecured debentures to fund carbon capture and storage projects that reach final investment decision as certain predetermined return thresholds are met. Under the terms of the agreement, Entropy and the investor have options that provide for the unsecured debentures to be exchanged for common shares at an exchange price of \$10 per share, subject to adjustment in certain circumstances. The investor has the option to exchange the outstanding unsecured debentures for common shares at any time while Entropy may commence a mandatory exchange of unsecured debentures for common shares in advance of an Initial Public Offering ("IPO"). The unsecured debentures have a term of 10 years, if not exchanged for common shares, which are to be repaid at the end of the term in the amount greater of the principal amount and the investor's pro rata share of the fair market value of Entropy, and are non-recourse to Advantage. Each debenture issued by Entropy bears an interest rate of 8% per annum that Entropy can elect to pay in cash or pay-in-kind, due on a quarterly basis. Any paid-in-kind interest is added to the aggregate principal, subject to certain limitations.

On April 5, 2022, Entropy issued unsecured debentures and received an initial \$25.0 million gross proceeds and incurred \$3.8 million of issuance cost. For the three months ended June 30, 2022, Entropy incurred interest of \$0.5 million that was paid in cash.

The exchange features of the unsecured debentures meet the definition of a derivative liability, as the exchange features allow the unsecured debentures to be potentially exchanged for a variable amount of common shares, and as such does not meet the fixed-for-fixed criteria for equity classification. The unsecured debenture - derivative liability is classified as Level 3 within the fair value hierarchy.

The following tables disclose the components associated with the unsecured debentures at initial recognition.

The changes in the unsecured debentures are as follows:

	June 30 2022
Balance, beginning of the year	-
Initial recognition	19,221
Issuance costs	(3,838)
Balance, end of period	15,383

The changes in the unsecured debentures - derivative liability related to the exchange features are as follows:

	June 30 2022
Balance, beginning of the year	-
Initial recognition	5,779
Balance, end of period	5,779

The following table provides a summary of the outstanding aggregate principal balance of the Corporation's unsecured debentures:

	June 30 2022
Aggregate principal balance, beginning of the year	-
Unsecured debentures issued	25,000
Aggregate principal balance, end of period	25,000

11. Provisions and other liabilities

	As at June 30, 2022	As at December 31, 2021
Performance Awards (note 15(c))	6,964	9,970
Deferred Share Units (note 15(d))	5,358	4,773
Deferred revenue (a)	6,603	6,603
Project funding grant (b)	-	57
Lease liability (c)	2,113	2,173
Financing liability (d)	91,697	93,488
Decommissioning liability (e)	38,573	62,474
Balance, end of period	151,308	179,538
Current provisions and other liabilities	12,812	11,224
Non-current provisions and other liabilities	138,496	168,314

(a) Deferred revenue

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

(b) Project funding grant

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

A reconciliation of the project funding is as follows:

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of the year	57	-
Project funding received	-	20,000
Interest earned	5	57
Project expenditures incurred	(62)	(20,000)
Balance, end of period	-	57

(c) Lease liability

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

A reconciliation of the lease liability is provided below:

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of the year	2,173	2,279
Additions	92	169
Interest expense	45	96
Lease payments	(197)	(371)
Balance, end of period	2,113	2,173
Current lease liability	361	364
Non-current lease liability	1,752	1,809

11. Provisions and other liabilities (continued)

(d) Financing liability

In 2020, Advantage sold a 12.5% interest in the Corporation's Glacier Gas Plant for \$100 million 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 with an effective interest rate of 9.1%.

A reconciliation of the financing liability is provided below:

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of the year	93,488	96,864
Interest expense	4,182	8,669
Financing payments	(5,973)	(12,045)
Balance, end of period	91,697	93,488
Current financing liability	3,866	3,696
Non-current financing liability	87,831	89,792

(e) Decommissioning liability

The Corporation's decommissioning liability results from net ownership interests in natural gas and liquids assets including well sites, gathering systems and facilities, all of which will require future costs of decommissioning under environmental legislation. These costs are expected to be incurred between 2022 and 2077. A risk-free rate of 3.1% (December 31, 2021 - 1.8%) and an inflation factor of 2.0% (December 31, 2021 - 2.0%) were used to calculate the fair value of the decommissioning liability at June 30, 2022. As at June 30, 2022, the total estimated undiscounted, uninflated cash flows required to settle the Corporation's decommissioning liability was \$59.3 million (December 31, 2021 - \$57.6 million).

A reconciliation of the decommissioning liability is provided below:

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of the year	62,474	60,894
Accretion expense	776	1,108
Liabilities incurred	283	1,737
Change in estimates	(486)	(1,800)
Effect of change in risk-free rate and inflation rate factor	(23,920)	1,568
Liabilities settled	(554)	(1,033)
Balance, end of period	38,573	62,474
Current decommissioning liability	2,426	2,000
Non-current decommissioning liability	36,147	60,474

11. Provisions and other liabilities (continued)

(f) Contractual maturities

The following table details the undiscounted cash flows and contractual maturities of the Corporation's Performance Awards, lease liability and financing liability, as at June 30, 2022:

(\$ millions)	Payments due by period						
	2022						
	Total	6 months	2023	2024	2025	2026	Beyond
Performance Awards	13.6	-	6.0	5.9	1.7	-	-
Lease liability	2.3	0.2	0.4	0.5	0.4	0.4	0.4
Financing liability	156.6	6.1	12.0	12.1	12.0	12.0	102.4
Total fixed payments	172.5	6.3	18.4	18.5	14.1	12.4	102.8

12. Income taxes

The provision for income taxes is as follows:

	Three months ended		Six months ended	
	June 30		June 30	
	2022	2021	2022	2021
Current income tax expense	-	-	-	-
Deferred income tax expense	50,198	2,620	56,429	2,726
Income tax expense	50,198	2,620	56,429	2,726

Income tax expense is recognized based on Management's best estimate of the weighted average annual income tax rate expected for the full financial year.

13. Share capital

(a) Authorized

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

(b) Issued

	Common Shares (# of shares)	Share capital
Balance at December 31, 2020	188,112,797	2,360,647
Shares issued on Performance Share Unit settlements (note 15 (a))	2,716,179	-
Contributed surplus transferred on Performance Share Unit settlements	-	10,069
Balance at December 31, 2021	190,828,976	2,370,716
Shares issued on Performance Share Unit settlements (note 15 (a))	3,056,992	-
Contributed surplus transferred on Performance Share Unit settlements	-	6,948
Shares purchased and canceled under NCIB	(4,446,148)	(54,525)
Balance at June 30, 2022	189,439,820	2,323,139

(c) Normal Course Issuer Bid ("NCIB")

On April 7, 2022, the Toronto Stock Exchange (the "TSX") approved the Corporation commencing a NCIB. Pursuant to the NCIB, Advantage will purchase for cancellation, from time to time, as it considers advisable, up to a maximum of 18,704,019 common shares of the Corporation. The NCIB commenced on April 13, 2022 and will terminate on April 12, 2023 or such earlier time as the NCIB is completed or terminated at the option of Advantage.

Purchases pursuant to the NCIB will be made on the open market through the facilities of the TSX or alternative trading systems. The price that Advantage will pay for any common shares under the NCIB will be the prevailing market price on the TSX at the time of such purchase. Common shares acquired under the NCIB will be cancelled.

For the six months ended June 30, 2022, the Corporation purchased 4.4 million common shares for cancellation at an average price of \$10.57 per common share for a total of \$47.0 million. Share capital was reduced by \$54.5 million while contributed surplus was increased by \$7.6 million, representing the excess average carrying value of the common shares over the purchase price.

14. Non-controlling interest ("NCI")

A reconciliation of the NCI, representing the carrying value of the 10% shareholding of Entropy held by outside interests is provided below:

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of the year	2,331	-
Consideration contributed by NCI	-	2,500
Net loss and comprehensive loss attributable to NCI	(183)	(169)
Balance, end of period	2,148	2,331

15. Long-term compensation plans

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

Under the Restricted and Performance Award Incentive Plan, service providers can be granted two types of equity incentive awards: Restricted Share Units and Performance Share Units. As at June 30, 2022, no Restricted Share Units have been granted. Performance Share Units vest on the third anniversary of the grant date and are subject to a Payout Multiplier that is determined based on the achievement of corporate performance measures during that three-year period, as approved by the Board of Directors.

The following table is a continuity of Performance Share Units:

	Performance Share Units
Balance at December 31, 2020	5,243,598
Granted	1,247,026
Vested and settled	(1,549,658)
Forfeited	(60,282)
Balance at December 31, 2021	4,880,684
Granted	716,668
Vested and settled	(1,588,411)
Balance at June 30, 2022	4,008,941

During April 2022, 1,588,411 Performance Share Units vested and were settled with the issuance of 3,056,992 common shares.

(b) Share-based compensation expense

Share-based compensation expense after capitalization for the three and six months ended June 30, 2022, and 2021 are as follows:

	Three months ended		Six months ended	
	June 30		June 30	
	2022	2021	2022	2021
Total share-based compensation	2,031	1,674	4,014	3,284
Capitalized	(349)	(355)	(926)	(933)
Cash settled awards	-	(682)	-	(682)
Share-based compensation expense	1,682	637	3,088	1,669

15. Long-term compensation plans (continued)

(c) Performance Award Incentive Plan - Performance Awards

Under the Performance Award Incentive Plan, service providers can be granted cash Performance Awards. Such grants vest on the third anniversary of the grant date and are subject to a Payout Multiplier that is determined based on the achievement of corporate performance measures during that three-year period, as approved by the Board of Directors. Performance Awards are expensed to general and administrative expense with the recording of a current and non-current liability (note 11) until eventually settled in cash.

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

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of the year	9,970	4,620
Performance Award expense	3,604	5,284
Interest expense	31	66
Vested and settled	(6,641)	-
Balance, end of period	6,964	9,970
Current	4,520	5,107
Non-current	2,444	4,863

(d) Deferred Share Units

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

The following table is a continuity of Deferred Share Units:

	Deferred Share Units
Balance at December 31, 2020	629,330
Granted	105,140
Settled	(90,377)
Balance at December 31, 2021	644,093
Granted	25,669
Balance at June 30, 2022	669,762

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

	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of the year	4,773	1,076
Granted	220	418
Revaluation of outstanding Deferred Share Units	365	3,599
Settled	-	(320)
Balance, end of period	5,358	4,773
Current	1,639	-
Non-current	3,719	4,773

16. Net income per share attributable to Advantage shareholders

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

	Three months ended		Six months ended	
	June 30		June 30	
	2022	2021	2022	2021
Net income attributable to Advantage shareholders				
Basic and diluted	164,334	8,725	183,913	8,300
Weighted average shares outstanding				
Basic	190,414,576	190,500,647	190,620,631	189,313,318
Performance Share Units	6,841,684	8,526,599	6,841,684	8,526,599
Diluted	197,256,260	199,027,246	197,462,315	197,839,917
Net income per share attributable to Advantage shareholders				
Basic (\$/share)	0.86	0.04	0.96	0.04
Diluted (\$/share)	0.83	0.04	0.93	0.04

17. Revenues

(a) Natural gas and liquids sales

For the three and six months ended June 30, 2022, and 2021, natural gas and liquids sales was as follows:

	Three months ended		Six months ended	
	June 30		June 30	
	2022	2021	2022	2021
Crude oil	34,333	7,946	44,438	15,946
Condensate	14,722	4,734	25,569	9,261
NGLs	25,286	9,537	41,873	19,079
Liquids	74,341	22,217	111,880	44,286
Natural Gas	239,956	76,836	379,986	154,140
Natural gas and liquids sales	314,297	99,053	491,866	198,426

At June 30, 2022, receivables from contracts with customers, which are included in trade and other receivables, were \$104.9 million (December 31, 2021 - \$49.5 million).

(b) Sales of purchased natural gas

During the six months ended June 30, 2022, the Corporation purchased natural gas volumes to satisfy physical sales commitments. Purchases and sales of natural gas from third-parties was as follows:

	Three months ended		Six months ended	
	June 30		June 30	
	2022	2021	2022	2021
Sales of purchased natural gas	-	-	4,826	-
Natural gas purchases	-	-	(4,756)	-
Net sales of purchased natural gas	-	-	70	-

18. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Source (use) of cash:				
Trade and other receivables	(48,637)	1,797	(52,165)	(5,255)
Prepaid expense and deposits	(2,769)	(1,310)	(3,429)	(1,103)
Trade and other accrued liabilities	(6,404)	14,254	5,169	19,316
Performance Awards	(4,474)	1,397	(3,006)	2,382
Deferred Share Units	(380)	1,483	585	1,999
Project funding grant	-	(4,800)	(62)	(4,800)
	(62,664)	12,821	(52,908)	12,539
Related to operating activities	(29,514)	11,196	(28,784)	8,798
Related to financing activities	-	-	-	-
Related to investing activities	(33,150)	1,625	(24,124)	3,741
	(62,664)	12,821	(52,908)	12,539
Cash interest paid	3,471	3,406	8,956	10,726
Cash income taxes paid	-	-	-	-

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

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Cash flows				
Common shares repurchased	(46,975)	-	(46,975)	-
Draws on Credit Facility	60,000	5,000	60,000	15,000
Repayment of Credit Facility	(70,000)	(27,000)	(120,000)	(42,000)
Bankers' acceptance and other fees	(2,782)	(1,410)	(4,108)	(6,139)
Net proceeds from unsecured debentures	21,162	-	21,162	-
Lease payments	(73)	(99)	(197)	(190)
Financing payments	(3,003)	(3,003)	(5,973)	(5,973)
Net cash flows	(41,671)	(26,512)	(96,091)	(39,302)
Non-cash changes				
Amortization of bankers' acceptance fees	2,000	2,838	3,539	5,890
Lease liability interest expense	22	23	45	47
Financing liability interest expense	2,093	2,171	4,182	4,337
Total non-cash changes	4,115	5,032	7,766	10,274
Cash used in financing activities	(37,556)	(21,480)	(88,325)	(29,028)

19. Commitments

At June 30, 2022, Advantage had commitments relating to building operating cost, processing commitments, and transportation commitments. The estimated remaining payments are as follows:

(\$ millions)	Payments due by period						
	2022		2023	2024	2025	2026	Beyond
	Total	6 months					
Building operating cost ⁽¹⁾	2.1	0.2	0.4	0.4	0.4	0.4	0.3
Processing	56.9	3.2	7.9	10.0	9.5	7.0	19.3
Transportation	455.4	35.3	69.1	69.2	67.5	55.6	158.7
Total commitments	514.4	38.7	77.4	79.6	77.4	63.0	178.3

⁽³⁾ Excludes fixed lease payments which are included in the Corporation's lease liability.

ABBREVIATIONS

Crude Oil and Natural Gas Liquids

bbl	barrel
bbls	barrels
Mbbls	thousand barrels
NGLs	natural gas liquids
BOE or boe	barrel of oil equivalent
Mboe	thousand barrels of oil equivalent
MMboe	million barrels of oil equivalent
boe/d	barrels of oil equivalent per day
bbls/d	barrels of oil per day

Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
bcf/d	billion cubic feet per day
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
Mcfe	thousand cubic feet of natural gas equivalent, using the ratio of 6 Mcf of natural gas being equivalent to one bbl of oil
MMcfe/d	million cubic feet of natural gas equivalent per day
MMbtu	million British Thermal Units
MMbtu/d	million British Thermal Units per day
GJ/d	Gigajoules per day

Other

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

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⁽²⁾ Member of Reserves, and Health, Safety, Environment Committee

⁽³⁾ Member of Compensation Committee

⁽⁴⁾ Member of Governance and Sustainability Committee

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Craig Blackwood, CFO
Neil Bokenfohr, Senior Vice President
David Sterna, Vice President, Marketing and Commercial
John Quaipe, Vice President, Finance
Darren Tisdale, Vice President, Geosciences
Geoff Keyser, Vice President, Corporate Development

Corporate Secretary

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

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National Bank of Canada
Royal Bank of Canada
Canadian Imperial Bank of Commerce
ATB Financial
Wells Fargo Bank N.A., /Canada Branch
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