

2015 Second Quarter Report

| Financial and Operating Highlights ⁽¹⁾ | Three months ended | | Six months ended | |
|---|--------------------|-----------|------------------|------------|
| | June 30 | | June 30 | |
| | 2015 | 2014 | 2015 | 2014 |
| Financial (\$000, except as otherwise indicated) | | | | |
| Sales including realized hedging | \$ 37,429 | \$ 54,265 | \$ 77,420 | \$ 109,504 |
| Funds from operations | \$ 27,571 | \$ 42,561 | \$ 57,500 | \$ 88,010 |
| per share ⁽²⁾ | \$ 0.16 | \$ 0.25 | \$ 0.34 | \$ 0.52 |
| Total capital expenditures | \$ 19,437 | \$ 21,013 | \$ 98,145 | \$ 70,300 |
| Working capital deficit ⁽³⁾ | \$ 16,046 | \$ 6,165 | \$ 16,046 | \$ 6,165 |
| Bank indebtedness | \$ 277,322 | \$ 71,120 | \$ 277,322 | \$ 71,120 |
| Convertible debentures (face value) | \$ - | \$ 86,250 | \$ - | \$ 86,250 |
| Basic weighted average shares (000) | 170,667 | 169,354 | 170,485 | 169,029 |
| Operating | | | | |
| Daily Production | | | | |
| Natural gas (mcf/d) | 124,299 | 134,912 | 128,765 | 128,731 |
| Liquids (bbls/d) | 112 | 200 | 112 | 182 |
| Total mcf/d ⁽⁴⁾ | 124,971 | 136,112 | 129,437 | 129,823 |
| Total boe/d ⁽⁴⁾ | 20,829 | 22,685 | 21,573 | 21,637 |
| Average prices (including hedging) | | | | |
| Natural gas (\$/mcf) | \$ 3.27 | \$ 4.27 | \$ 3.28 | \$ 4.56 |
| Liquids (\$/bbl) | \$ 47.91 | \$ 102.41 | \$ 44.90 | \$ 98.69 |
| Cash netbacks (\$/mcf) ⁽⁴⁾ | | | | |
| Natural gas and liquids sales | \$ 2.53 | \$ 4.82 | \$ 2.62 | \$ 5.04 |
| Realized gains (losses) on derivatives | 0.76 | (0.44) | 0.68 | (0.38) |
| Royalties | (0.11) | (0.23) | (0.12) | (0.24) |
| Operating expense | (0.37) | (0.31) | (0.36) | (0.30) |
| Operating netback | 2.81 | 3.84 | 2.82 | 4.12 |
| General and administrative | (0.19) | (0.19) | (0.18) | (0.20) |
| Finance expense | (0.22) | (0.21) | (0.20) | (0.23) |
| Other income | 0.01 | - | 0.01 | 0.05 |
| Cash netbacks | \$ 2.41 | \$ 3.44 | \$ 2.45 | \$ 3.74 |

(1) Financial and operating highlights for continuing operations of Advantage.

(2) Based on basic weighted average shares outstanding.

(3) Working capital deficit includes trade and other receivables, prepaid expenses and deposits, and trade and other accrued liabilities.

(4) A boe and mcf conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas equivalent to one barrel of liquids.

MESSAGE TO SHAREHOLDERS

Production reaches 183 mmcf/d (30,500 boe/d) during commissioning of expanded Glacier plant

Advantage reached the next level of production growth to 183 mmcf/d on July 20, 2015 with the expansion of its Glacier gas plant and a large inventory of Montney wells that continue to outperform expectations. With over 150 mmcf/d of initial average 30 day production rate (“IP30”) from standing completed wells and the recently expanded Glacier gas plant, Advantage is well positioned to execute on its future development plan. The Corporation’s ongoing operational achievements at Glacier reinforces its industry leading low costs, strong capital efficiencies, lower risk drilling and economic development at current commodity prices. This demonstrates our continued progress towards the Corporation’s future production targets of 205 mmcf/d (34,160 boe/d) in April 2016 and 245 mmcf/d (40,830 boe/d) in April 2017.

Advantage has excess well productivity and plant capacity to produce above current production rates should TCPL’s firm and interruptible service restrictions turn out to be less than scheduled during the second half of 2015. Additionally, Advantage’s strong balance sheet and operational flexibility will allow the Corporation to capitalize on any improvement in mid-term natural gas prices as increased power usage and lower capital budgets could create more demand than currently anticipated.

Operational Update

Production Reaches Plan Target of 183 mmcf/d (30,500 boe/d). Advantage’s 100% owned Glacier gas plant expansion began commissioning operations on July 17, 2015 with Montney dry gas production increased systematically to initially test the expanded inlet and compression capacity of the plant. Production through the Glacier gas plant has been tested at rates up to 200 mmcf/d and at approximately 180 mmcf/d for the last 18 days limited by TCPL transportation capacity.

Only 3 new Montney wells were required to increase production to 183 mmcf/d demonstrating significant excess production capability. Advantage required only three new wells (compared to our earlier estimate of six wells) to increase production from 130 mmcf/d to 183 mmcf/d in July 2015. The three wells consisted of one Lower Montney well that remained standing from our 2013 drilling program and two Upper Montney wells from Advantage’s 33 well standing inventory resulting from the Corporation’s 2014 drilling program. The Lower Montney well was brought on production initially at 21 mmcf/d at a flowing pressure of 9,920 kpa and the two Upper Montney wells were brought on production initially at a combined rate of 29 mmcf/d at an average flowing pressure of 7,360 kpa. As a result of lower long term production declines and strong initial production test rates demonstrated by the new completed wells, we forecast the 33 wells will sustain the 183 mmcf/d production level and drive the next production increase to 205 mmcf/d in April 2016.

Commissioning of Liquids Extraction Units Scheduled To Begin In August 2015. The second phase of commissioning will focus on two new 125 mmcf/d shallow cut liquids extraction process trains and the new condensate stabilization system installed at Glacier. On completion of this testing in September 2015, the Glacier gas plant will have the capacity and flexibility to process 250 mmcf/d of natural gas containing varying amounts of dry or liquids rich gas and provides 70 mmcf/d of spare capacity to accommodate growth plans through 2017.

Ten completed and standing liquids rich Middle Montney wells demonstrate improved test results. Ten Middle Montney wells were drilled and completed with modified completion designs in the eastern half of the Glacier land block as part of Advantage’s 2014 drilling program. These Middle Montney wells demonstrated an average final well production test rate of 6.6 mmcf/d with an average flow period of 67 hours at a normalized gas gathering flowing pressure of 3,000 kpa. The average propane plus (“C3+”)

liquid yield is estimated at 50 bbls/mmcf with condensate (“C5+”) comprising 50% of the liquid content. Three of the Middle Montney wells demonstrated final average production test rates in excess of 9 mmcf/d. Advantage believes these ten wells could exceed the historical average Glacier Middle Montney well type curve of 4 mmcf/d IP30 and 4 Bcf.

To date, Advantage has drilled a total of 22 Middle Montney horizontal and vertical wells to delineate and commercialize the liquids rich Middle Montney formation at Glacier.

Upper Montney well cost reduced \$0.9 million (16%) to \$4.6 million. Advantage achieved average drill, complete and equipping costs of \$4.6 million per well on the last 11 Upper Montney wells of its 2014 drilling program due to improved completion efficiencies and realized service cost reductions. We expect this lower service cost environment will continue through 2015 and could result in further well cost reductions. Advantage will initiate drilling on 5 Lower Montney wells in the third quarter of 2015 to capture improved capital efficiencies. These 5 wells and planned 2016 wells will provide future inventory to support production growth to 245 mmcfe/d targeted for April 2017.

Glacier Montney wells generate strong economics at current commodity prices. Based on Management estimates, a 7 mmcf/d IP, 7 Bcf Glacier Upper Montney dry gas well at \$4.6 million drill, complete and equipping cost is estimated to generate well economics with a rate of return of 65% at AeCo Cdn \$3.00/mcf. At 9 mmcf/d IP, 9 Bcf, the rate of return increases to 112%. In the liquids rich Middle Montney formation, a 4 mmcf/d IP, 4 Bcf well at \$5.5 million drill, complete and equipping cost (assumes 15% decrease in well cost) is estimated to generate well economics with a rate of return of 21% at AeCo Cdn \$3.00/mcf and a \$28/bbl blended liquids price. At 6 mmcf/d and 6 Bcf, the rate of return increases to 54%. Advantage’s industry leading low cost structure and improved well results are significant factors contributing to the strength of our development plan.

Advantage’s development & facilities at Glacier provides flexibility to optimize netbacks and returns with changes in commodity price trends. This can be accomplished in a timely manner by modifying the number of existing and future producing dry gas versus liquids rich wells or adjusting the recovery levels through the liquids extraction process. At the current prices for propane and butane, Advantage intends to extract the condensate and leave more of the propane and butane in the sales gas stream. Additionally, production growth can be accelerated subject to improved prices and/or availability of excess TCPL transportation capacity. Advantage’s 100% ownership and operatorship of its facilities is a key factor in providing this flexibility.

Second Quarter 2015 Operating and Financial Highlights

The Corporation’s strong natural gas hedge position and industry leading low cost structure helped to mitigate cash flow volatility during the second quarter as AeCo Cdn natural gas prices declined by 43% compared to the same period of 2014. Operational activities during the period focused primarily on construction and installation of new equipment at Advantage’s Glacier plant to expand its processing capacity to 250 mmcfe/d including liquids extraction. The Corporation’s second quarter production was impacted by a TCPL unplanned firm service outage in addition to Advantage’s planned outages required to install new equipment at the Glacier gas plant.

Funds from operations were \$27.6 million or \$0.16 per share. Hedging gains of \$8.6 million during the second quarter of 2015 helped to partly offset a decrease in Canadian natural gas prices and TCPL’s unplanned transportation restrictions. Advantage’s operating netback for the second quarter of 2015 was \$2.41/mcfe (\$14.55 /boe) which represents 73% of the net sales price, including realized hedging.

Production averaged 125 mmcfe/d (20,829 boe/d) for the second quarter. Production for the first half of 2015 averaged 129.4 mmcfe/d (21,573 boe/d).

Total Debt was \$293 million including \$16 million of working capital deficit at the end of the second quarter which is on track with Advantage's development plan. The Corporation retains an undrawn bank line of \$173 million and maintains financial flexibility to support future development.

Industry leading total cash costs decreased 5% to \$0.89/mcfe as compared to the same period of 2014. Total cash costs include operating expense (\$0.37/mcfe), royalties (\$0.11/mcfe), general and administrative expense (\$0.19/mcfe), and finance expense (\$0.22/mcfe).

Strong natural gas hedge positions averaging 60% of forecast production at AeCo Cdn \$3.73/mcf from July to December 2015 and 52% of forecast production for 2016 at AeCo Cdn \$3.62/mcf provides near term downside gas price protection. For 2017, Advantage has hedged an average 16% of its forecast production at AeCo Cdn \$3.37/mcf.

Continuing TCPL Transportation Restrictions Impact 2015 Production

Advantage has contracted an average of 97% of firm capacity transportation service with TCPL to support the Corporation's current and future production targets through 2017. Additionally, the Corporation received confirmation from TCPL for an incremental 2018 firm service capacity request of 35 mmcf/d.

During the first half of 2015, TCPL restricted interruptible service in northwest Alberta which had a limited impact on Glacier production due to the high level of contracted firm service. However, maintenance schedule updates received from TCPL in July 2015 indicated additional firm service restrictions and outages were required for the second half of 2015 and more specifically during the third quarter of 2015. Advantage accelerated its own annual maintenance work originally scheduled for the fourth quarter into July 2015 to align with TCPL's service restrictions and Glacier plant start up activities. The maintenance work and new equipment installation took slightly longer than anticipated and extended our planned July Glacier plant outage by an additional 10 days. Production rates have increased to average approximately 180 mmcfe/d for the last 18 days and are expected to be restricted periodically by available TCPL transportation capacity. As a result, production for the third quarter of 2015 is estimated to average 145 mmcfe/d to 150 mmcfe/d.

Based on TCPL's recent information, we anticipate transportation service restrictions will subside in the fourth quarter of 2015 and no changes to our development plan estimates for 2016 and 2017 are necessary.

The impact of TCPL's scheduled restrictions is estimated to lower Advantage's 2015 annual production by approximately 5% to 145 mmcfe/d to 151 mmcfe/d compared to our original Guidance. The lower production is estimated to reduce annual cash flow and cash flow per share by approximately 2% (\$2 million or \$0.02/share). Total debt to trailing cash flow at the end of 2015 is estimated to be 2.1 times. (2015 annual cash flow based on mid point of guidance at a 2015 AeCo price of \$2.70/GJ compared to original estimates based on at a 2015 AeCo price of \$2.53/GJ and includes commodity price hedge positions.)

Advantage is well positioned to produce at higher rates during the second half of 2015 with excess well and plant capacity should TCPL transportation restrictions become less than anticipated or subside earlier than scheduled. With no restrictions on TCPL firm service and available surplus interruptible capacity, Advantage is capable of producing in excess 200 mmcfe/d pending the final testing of all new equipment by the end of September.

The strong operational results at Glacier continues to demonstrate the high quality of our Montney asset and provides a solid foundation to facilitate value growth through lower risk capital investment. Advantage's Management and Board are focused on developing the Corporation's Glacier Montney resource play in a manner that grows long term value and preserves financial strength.

Advisory

The information in this report contains certain forward-looking statements, including within the meaning of the United States Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future intentions or 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”, “guidance”, “demonstrate”, “expect”, “may”, “can”, “will”, “project”, “predict”, “potential”, “target”, “intend”, “could”, “might”, “should”, “believe”, “would” and similar expressions and include statements relating to, among other things, Advantage's ability to grow its Glacier Montney resource play and preserve a strong balance sheet during cycles of volatility in the commodity and financial markets; Advantage's focus on execution and optimization of its development plan and the maintenance of a strong balance sheet and its anticipated effect on per share growth; Advantage's anticipated production, production per share growth, cash flow per share growth and debt to cash flow ratio including the targeted amount and timing of achievement thereof; expected increases in production in 2015, 2016 and 2017 resulting from Advantage's Glacier development plan; expected maintenance work to be performed by TransCanada during the fourth quarter of 2015; expectations as to the number of wells in Advantage's 2014 program required to provide sufficient production inventory to maintain production at anticipated levels; expected number of future drilling locations; anticipated drilling plans, including drilling rigs to be deployed; anticipated timing of completion of expansion of Glacier gas plant and expected effect of completion of such expansion on Advantage's production; Advantage's expected timing of reporting results from its new Valhalla land block; anticipated effect of Advantage's Glacier Montney asset, cost structure, strong balance sheet and focused business plan on execution of Advantage's development program and production and cash flow per share growth; and Advantage's belief that its Glacier Montney area provides the opportunity for significant long term value. Advantage's actual decisions, activities, results, performance or achievement could differ materially from those expressed in, or implied by, such forward-looking statements and accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur or, if any of them do, what benefits that Advantage will derive from them.

These statements involve substantial known and unknown risks and uncertainties, certain of which are beyond Advantage's control, including, but not limited to: changes in general economic, market and business conditions; industry conditions; actions by governmental or regulatory authorities including increasing taxes and changes in investment or other regulations; changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry; the effect of acquisitions; Advantage's success at acquisition, exploitation and development of reserves; unexpected drilling results; 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, including 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; delays in anticipated timing of drilling and completion of wells; delays in completion of the expansion of the Glacier gas plant; individual well productivity; competition from other producers; the lack of availability of qualified personnel or management; credit risk; changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; our ability to comply with current and future environmental or other laws; stock market volatility and market valuations; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions; geological, technical, drilling and processing problems and other difficulties in producing petroleum reserves; ability to obtain required approvals of regulatory authorities; and ability to access sufficient capital from internal and external sources. Many of these risks and uncertainties and additional risk factors are described in the Corporation's Annual Information Form which is available at www.Sedar.com and www.advantageog.com. Readers are also referred to risk factors described in other documents Advantage files with Canadian securities authorities.

With respect to forward-looking statements contained in this report, Advantage has made assumptions regarding, but not limited to: conditions in general economic and financial markets; effects of regulation by governmental agencies; current and future commodity prices and royalty regimes; future exchange rates; royalty rates; future operating costs; availability of skilled labor; availability of drilling and related equipment; timing and amount of capital expenditures; the impact of increasing competition; the price of crude oil and natural gas; that the Corporation will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Corporation's conduct and results of operations will be consistent with its expectations; that the Corporation will have the ability to develop the Corporation's properties in the manner currently contemplated; current or, where applicable, proposed assumed industry conditions, laws and regulations will continue in effect or as anticipated; and the estimates of the Corporation's production and reserves 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 above its continuous disclosure as filed on Sedar 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 report 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.

Barrels of oil equivalent (boe) and thousand cubic feet of natural gas equivalent (mcf) may be misleading, particularly if used in isolation. Boe and mcf conversion ratios have been calculated using a conversion rate of six thousand cubic feet of natural gas equivalent to one barrel of oil. A boe and mcf conversion ratio of 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. Given that the value ratio based on the current price of crude oil as compared to natural gas 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.

References in this report to final production test rates, initial test production rates, 30 day production rates and other short-term production rates are useful in confirming the presence of hydrocarbons, however such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long term performance or of ultimate recovery. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for Advantage. A pressure transient analysis or well-test interpretation has not been carried out in respect of all wells. Accordingly, the Corporation cautions that the test results should be considered to be preliminary.

The Corporation discloses several financial measures that do not have any standardized meaning prescribed under International Financial Reporting Standards ("IFRS"). These financial measures include operating netbacks and debt to cash flow ratio. Management believes that these financial measures are useful supplemental information to analyze operating performance and provide an indication of the results generated by the Corporation's principal business activities. Investors should be cautioned that these measures should not be construed as an alternative to net income or other measures of financial performance as determined in accordance with IFRS. Advantage's method of calculating these measures may differ from other companies, and accordingly, they may not be comparable to similar measures used by other companies. Please see the Corporation's most recent Management's Discussion and Analysis, which is available at www.sedar.com and www.advantageog.com for additional information about these financial measures, including a reconciliation of funds from operations to cash provided by operating activities.

The following abbreviations used in this report have the meanings set forth below:

| | |
|---------------|---|
| <i>boe</i> | <i>barrels of oil equivalent of natural gas, on the basis of one barrel of oil or NGLs for six thousand cubic feet of natural gas</i> |
| <i>boe/d</i> | <i>barrels of oil equivalent per day</i> |
| <i>GJ</i> | <i>gigajoule</i> |
| <i>kpa</i> | <i>kilopascal</i> |
| <i>mcf</i> | <i>thousand cubic feet</i> |
| <i>mcf</i> | <i>thousand cubic feet equivalent on the basis of six thousand cubic feet of natural gas for one barrel of oil or NGLs</i> |
| <i>mmcf</i> | <i>million cubic feet</i> |
| <i>mmcf/d</i> | <i>million cubic feet per day</i> |
| <i>mmcf</i> | <i>million cubic feet equivalent</i> |
| <i>mmcf/d</i> | <i>million cubic feet equivalent per day</i> |

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of August 6, 2015, provides a detailed explanation of the consolidated financial and operating results of Advantage Oil & Gas Ltd. ("Advantage", the "Corporation", "us", "we" or "our") for the three and six months ended June 30, 2015 and should be read in conjunction with the unaudited consolidated financial statements for the three and six months ended June 30, 2015 and the audited consolidated financial statements and MD&A for the year ended December 31, 2014. 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. The terms "boe" or barrels of oil equivalent and "mcf" or thousand cubic feet equivalent may be misleading, particularly if used in isolation. A boe or mcf 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.

Forward-Looking Information

This MD&A contains certain forward-looking statements, which are based on our current internal expectations, estimates, projections, assumptions and beliefs. These 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 included in this MD&A include, but are not limited to, effect of commodity prices on the Corporation's financial results, condition and performance; industry conditions, including effect of changes in commodity prices, weather and general economic conditions on the crude oil and natural gas industry and demand for crude oil and natural gas; the Corporation's hedging activities; terms of the Corporation's derivative contracts, including the timing of settlement of such contracts; effect of fluctuations in commodity prices as compared to valuation assumptions on actual gains or losses realized on cash settlement of derivatives; average royalty rates and the impact of well depths, well production rates, commodity prices and gas cost allowance on average corporate royalty rates; projected royalty rates, including the estimated royalty rate for the life of a Glacier Upper and Lower Montney horizontal well; anticipated average operating costs for the second half of 2015; terms of the Corporation's equity compensation plans; future commitments and contractual obligations; terms of the Corporation's credit facilities, including timing of next review of the credit facilities, effect of revisions or changes in reserve estimates and commodity prices on the borrowing base, and limitations on the utilization of hedging contracts; the Corporation's expectations regarding extension of Advantage's credit facilities at each annual review; the Corporation's strategy for managing its capital structure, including the use of equity and debt financing arrangements, declaring a dividend, adjusting capital spending and financial and operational forecasting processes to facilitate management of the Corporation's capital structure; the timing of reviews of capital structure and forecast information by management and the Board of Directors; effect of the Corporation's continual financial assessment processes on the Corporation's ability to mitigate risks; the Corporation's plans to fund the majority of its capital expenditures for the year ended December 31, 2015 from funds from operations and available credit facilities; the Corporation's estimated debt to trailing funds from operations ratio; the Corporation's ability to satisfy all liabilities and commitments, including a working capital deficit, and meet future obligations as they become due; the focus of the Corporation's capital expenditures and operations in the second half of 2015, including the Corporation's drilling and facility expansion plans and its ability to maintain and increase production to the levels disclosed herein; anticipated timing of completion and bringing on production of certain wells; the Corporation's intentions to monitor debt levels to ensure an optimal mix of financing and cost of capital to provide a return to the Corporation's shareholders; and the statements under "critical accounting estimates" in this MD&A. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future.

These forward-looking statements involve substantial known and unknown risks and uncertainties, many of which are beyond our control, including, but not limited to, risks related to changes in general economic, market and business conditions; continued volatility in market prices for oil and natural gas; the impact of significant declines in market prices for oil and natural gas; stock market volatility; changes to legislation and regulations and how they are interpreted and enforced; our ability to comply with current and future environmental or other laws; actions by governmental or regulatory authorities including increasing taxes, changes in investment or other regulations; changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry; the effect of acquisitions; our success at acquisition, exploitation and development of reserves; unexpected drilling results; failure to achieve production targets on timelines anticipated or at all; changes in commodity prices, currency exchange rates, capital expenditures, reserves or reserves estimates and debt service requirements; the occurrence of unexpected events involved in the exploration for, and

the operation and development of, oil and gas properties; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; changes or fluctuations in production levels; individual well productivity; delays in anticipated timing of drilling and completion of wells; delays in timing of completion of the Corporation's plant expansion at Glacier; the failure to extend our credit facilities at each annual review; competition from other producers; the lack of availability of qualified personnel or management; ability to access sufficient capital from internal and external sources; credit risk; and the risks and uncertainties described in the Corporation's Annual Information Form which is available at www.sedar.com and www.advantageog.com. Readers are also referred to risk factors described in other documents Advantage files with Canadian securities authorities.

With respect to forward-looking statements contained in this MD&A, in addition to other assumptions identified herein, Advantage has made assumptions regarding, but not limited to: current and future prices of oil and natural gas; that the current commodity price and foreign exchange environment will continue or improve; conditions in general economic and financial markets; effects of regulation by governmental agencies; receipt of required 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 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; that current or, where applicable, proposed assumed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; and that the estimates of the Corporation's production, reserves and resources volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects.

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

Disposition of Longview and Discontinued Operations

Advantage owned 21,150,010 common shares of Longview Oil Corp. ("Longview") prior to February 28, 2014, representing an interest of approximately 45.1% of Longview. Since Advantage held the single largest ownership interest of Longview and other ownership interests were comparatively dispersed, Advantage was considered to control Longview. Accordingly, prior to February 28, 2014, the financial and operating results of Longview were consolidated 100% within Advantage and non-controlling interest was recognized which represented Longview's independent shareholders 54.9% ownership interest in the net assets and income of Longview. On February 28, 2014, Advantage sold the 21,150,010 common shares of Longview and received net proceeds of \$90.2 million, all of which were used to reduce existing bank indebtedness. Concurrently, Advantage derecognized all assets and liabilities of Longview from the consolidated statement of financial position and ceased to consolidate Longview subsequent to February 28, 2014.

Given that the Longview legal entity was an operating segment, the financial results for the Advantage legal entity are presented as "continuing operations" and for the Longview legal entity are presented as "discontinued operations" for all periods in the consolidated financial statements, as required by IFRS. This presentation has been consistently applied throughout this MD&A on a similar basis with the term "continuing operations" referring to the Advantage legal entity and "discontinued operations" referring to the Longview legal entity.

Non-GAAP Measures

The Corporation discloses several financial measures in the MD&A that do not have any standardized meaning prescribed under GAAP. These financial measures include funds from operations and cash netbacks. Management believes that these financial measures are useful supplemental information to analyze operating performance and provide an indication of the results generated by the Corporation's principal business activities. Investors should be cautioned that these measures should not be construed as an alternative to net income, comprehensive income, and cash provided by operating activities or other measures of financial performance as determined in accordance with GAAP. Advantage's method of calculating these measures may differ from other companies, and accordingly, they may not be comparable to similar measures used by other companies.

Funds from operations, as presented, is based on cash provided by operating activities, before expenditures on decommissioning liability and changes in non-cash working capital, reduced for finance expense excluding accretion. Management believes these adjustments to cash provided by operating activities increase comparability between reporting periods. Cash netbacks are dependent on the determination of funds from operations and include the primary cash sales and expenses on a per mcfe basis that comprise funds from operations. Funds from operations reconciled to cash provided by operating activities is as follows:

| (\$000) | Three months ended | | | Six months ended | | |
|---|--------------------|------------------|---------------|------------------|------------------|---------------|
| | June 30 | | | June 30 | | |
| | 2015 | 2014 | % change | 2015 | 2014 | % change |
| Cash provided by operating activities - continuing operations | \$ 14,223 | \$ 47,739 | (70) % | \$ 43,973 | \$ 64,758 | (32) % |
| Expenditures on decommissioning liability | 253 | 38 | 566 % | 391 | 47 | 732 % |
| Changes in non-cash working capital | 15,555 | (2,576) | (704) % | 17,869 | 28,658 | (38) % |
| Finance expense ⁽¹⁾ | (2,460) | (2,640) | (7) % | (4,733) | (5,453) | (13) % |
| Funds from operations - continuing operations | \$ 27,571 | \$ 42,561 | (35) % | \$ 57,500 | \$ 88,010 | (35) % |
| Funds from operations - discontinued operations | - | - | - % | - | 10,019 | (100) % |
| Funds from operations | \$ 27,571 | \$ 42,561 | (35) % | \$ 57,500 | \$ 98,029 | (41) % |

⁽¹⁾ Finance expense excludes non-cash accretion expense.

FINANCIAL AND OPERATING REVIEW – CONTINUING OPERATIONS

Overview

| | Three months ended | | | | Six months ended | | | |
|--|--------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
| | June 30 | | | | June 30 | | | |
| | 2015 | | 2014 | | 2015 | | 2014 | |
| | \$000 | per mcfe | \$000 | per mcfe | \$000 | per mcfe | \$000 | per mcfe |
| Natural gas and liquids sales | \$ 28,804 | \$ 2.53 | \$ 59,670 | \$ 4.82 | \$ 61,431 | \$ 2.62 | \$ 118,445 | \$ 5.04 |
| Realized gains (losses) on derivatives | 8,625 | 0.76 | (5,405) | (0.44) | 15,989 | 0.68 | (8,941) | (0.38) |
| Royalties | (1,236) | (0.11) | (2,828) | (0.23) | (2,771) | (0.12) | (5,538) | (0.24) |
| Operating expense | (4,172) | (0.37) | (3,891) | (0.31) | (8,446) | (0.36) | (6,948) | (0.30) |
| Operating income and operating netbacks | 32,021 | 2.81 | 47,546 | 3.84 | 66,203 | 2.82 | 97,018 | 4.12 |
| General and administrative ⁽¹⁾ | (2,115) | (0.19) | (2,351) | (0.19) | (4,152) | (0.18) | (4,603) | (0.20) |
| Finance expense ⁽²⁾ | (2,460) | (0.22) | (2,640) | (0.21) | (4,733) | (0.20) | (5,453) | (0.23) |
| Other income ⁽³⁾ | 125 | 0.01 | 6 | - | 182 | 0.01 | 1,048 | 0.05 |
| Funds from operations and cash netbacks | \$ 27,571 | \$ 2.41 | \$ 42,561 | \$ 3.44 | \$ 57,500 | \$ 2.45 | \$ 88,010 | \$ 3.74 |
| Per basic weighted average share | \$ 0.16 | | \$ 0.25 | | \$ 0.34 | | \$ 0.52 | |

(1) General and administrative expense excludes share based compensation.

(2) Finance expense excludes non-cash accretion expense.

(3) Other income excludes non-cash other income.

For the three and six months ended June 30, 2015, Advantage realized funds from operations of \$27.6 million and \$57.5 million with cash netbacks of \$2.41/mcfe and \$2.45/mcfe, respectively. On a per share basis, funds from operations was \$0.16 and \$0.34 per share for the three and six months ended June 30, 2015, respectively. For 2015, the decrease in funds from operations and cash netbacks as compared to 2014 was the result of a significant decrease in AECO pricing (see “Commodity Prices and Marketing”). The effect of lower natural gas prices was partially mitigated by our significant hedging position that resulted in realized gains of \$8.6 million and \$16.0 million for the three and six months ended June 30, 2015, respectively. Additionally, total cash costs for the three and six months ended June 30, 2015, including royalties, operating expense, general and administrative expense, and finance expense have been reduced by 5% and 11% to \$0.89/mcfe and \$0.86/mcfe as compared to the same periods of 2014. The lower total cash cost structure resulted from transforming Advantage into a pure play Montney producer with a single focus on development of our Glacier, Alberta area. Production for the second quarter of 2015 was slightly lower as compared to the first quarter of 2015 and the second quarter of 2014, due to an unplanned firm service outage by Trans-Canada Pipelines Ltd. (“TCPL”) and our planned outages required to install new equipment for the Glacier gas plant expansion (see “Production”).

Natural Gas and Liquids Sales and Hedging

| (\$000) | Three months ended | | | Six months ended | | |
|--|--------------------|------------------|---------------|------------------|-------------------|---------------|
| | June 30 | | | June 30 | | |
| | 2015 | 2014 | % change | 2015 | 2014 | % change |
| Natural gas sales | \$ 28,315 | \$ 57,811 | (51) % | \$ 60,519 | \$ 115,204 | (47) % |
| Realized gains (losses) on derivatives | 8,625 | (5,405) | (260) % | 15,989 | (8,941) | (279) % |
| Natural gas sales including hedging | 36,940 | 52,406 | (30) % | 76,508 | 106,263 | (28) % |
| Liquids sales | 489 | 1,859 | (74) % | 912 | 3,241 | (72) % |
| Total ⁽¹⁾ | \$ 37,429 | \$ 54,265 | (31) % | \$ 77,420 | \$ 109,504 | (29) % |

(1) Total excludes unrealized derivative gains and losses.

Total sales including hedging for the three months ended June 30, 2015 was \$37.4 million, a decrease of \$16.8 million or 31%, and for the six months ended June 30, 2015 was \$77.4 million, a decrease of \$32.1 million or 29% when compared to the same periods of 2014. Realized hedging gains of \$8.6 million and \$16.0 million for the three and six months ended June 30, 2015 partially mitigated the significant decline in natural gas prices.

Production

| | Three months ended | | | Six months ended | | |
|----------------------|--------------------|----------------|--------------|------------------|----------------|------------|
| | June 30 | | | June 30 | | |
| | 2015 | 2014 | % change | 2015 | 2014 | % change |
| Natural gas (mcf/d) | 124,299 | 134,912 | (8) % | 128,765 | 128,731 | - % |
| Liquids (bbls/d) | 112 | 200 | (44) % | 112 | 182 | (38) % |
| Total - mcf/d | 124,971 | 136,112 | (8) % | 129,437 | 129,823 | - % |
| - boe/d | 20,829 | 22,685 | (8) % | 21,573 | 21,637 | - % |
| Natural gas (%) | 99% | 99% | | 99% | 99% | |
| Liquids (%) | 1% | 1% | | 1% | 1% | |

Production for the second quarter of 2015 was 7% lower as compared to the first quarter of 2015, and 8% lower as compared to the second quarter of 2014. The Corporation's second quarter production was impacted by a TCPL unplanned firm service outage in addition to our planned outages required to install new equipment for the Glacier gas plant expansion. TCPL restricted gas shipments for customers with firm service contracts and interruptible service during the second quarter of 2015. As Advantage has firm service contracts averaging 97% of current and future production targets, this allowed us to maintain a higher level of production during the TCPL restrictions, although we were partially impacted. Operational activities during the quarter focused primarily on construction and installation of new equipment at Advantage's Glacier plant to expand its processing capacity to 250 mmcf/d including liquids extraction. In July 2015, production reached 183 mmcf/d during the first phase of commissioning operations at our expanded Glacier plant.

Commodity Prices and Marketing

| | Three months ended | | | Six months ended | | |
|---|--------------------|-----------|----------|------------------|-----------|----------|
| | June 30 | | | June 30 | | |
| | 2015 | 2014 | % change | 2015 | 2014 | % change |
| Average Realized Pricing | | | | | | |
| Natural gas, excluding hedging (\$/mcf) | \$ 2.50 | \$ 4.71 | (47) % | \$ 2.60 | \$ 4.94 | (47) % |
| Natural gas, including hedging (\$/mcf) | \$ 3.27 | \$ 4.27 | (23) % | \$ 3.28 | \$ 4.56 | (28) % |
| Liquids, including hedging (\$/bbl) | \$ 47.91 | \$ 102.41 | (53) % | \$ 44.90 | \$ 98.69 | (55) % |
| Benchmark Prices | | | | | | |
| AECO daily (\$/mcf) | \$ 2.66 | \$ 4.69 | (43) % | \$ 2.71 | \$ 5.15 | (47) % |
| AECO monthly (\$/mcf) | \$ 2.67 | \$ 4.68 | (43) % | \$ 2.81 | \$ 4.73 | (41) % |
| NYMEX (\$US/mmbtu) | \$ 2.67 | \$ 4.60 | (42) % | \$ 2.81 | \$ 4.76 | (41) % |
| Edmonton Light (\$/bbl) | \$ 67.68 | \$ 105.65 | (36) % | \$ 59.75 | \$ 102.84 | (42) % |

Advantage's current production from Glacier is 99% natural gas and is delivered into TCPL. The prices we receive at delivery are based on a combination of AECO daily and monthly. Specifically, Advantage sells production at the monthly price equal to our hedged volumes for any given month, as all of our hedges are currently based on the monthly index (see "Commodity Price Risk"). The remainder of our production is sold at the daily index. Our realized pricing is net of pipeline transportation costs to AECO and we have secured TCPL firm sales transportation contracts averaging 97% of our development plan production targets. Realized natural gas prices, excluding hedging, were much lower than those of the prior year corresponding to the significant decline in AECO prices. Higher prices had been realized in early 2014 as a result of an extremely cold 2013/2014 winter that increased demand and reduced North American storage levels well below the five-year average. During the second half of 2014, natural gas prices decreased due to the continued growth of U.S. domestic natural gas production that have reached historic high levels.

Commodity Price Risk

The Corporation's financial results and condition will be dependent on the prices received for natural gas production. Natural gas prices have fluctuated widely and are determined by supply and demand factors, including weather, and general economic conditions in natural gas consuming and producing regions throughout North America. Management has been proactive in entering into derivatives for the purpose of hedging and has partially mitigated commodity price risk by entering natural gas hedging contracts to March 31, 2018 in support of our Glacier multi-year development plan. Our Credit Facilities allow Advantage to hedge up to 65% of total estimated natural gas and liquids production over the first three years and 50% over the fourth year. Advantage has hedged approximately 60% of forecast production, net of royalties, for the remainder of 2015 at an average natural gas price of \$3.73/mcf.

Our current hedging positions are summarized as follows:

| Period | Forecast Production | | Average Price AECO (\$Cdn.) |
|--------------------|------------------------------|------------------------------|--------------------------------|
| | Average Production Hedged | Hedged (net of royalties) | |
| Q3 2015 to Q4 2015 | 92.4 mmcf/d | 60% | \$3.73/mcf |
| Q1 2016 to Q4 2016 | 94.8 mmcf/d | 52% | \$3.62/mcf |
| Q1 2017 to Q4 2017 | 34.4 mmcf/d | 16% | \$3.37/mcf |
| Q1 2018 | 19.0 mmcf/d | 9% | \$3.27/mcf |

A summary of realized and unrealized hedging gains and losses for the three and six months ended June 30, 2015 and 2014 are as follows:

| (\$000) | Three months ended | | | Six months ended | | |
|--|--------------------|------------------|---------------|------------------|--------------------|----------------|
| | June 30 | | | June 30 | | |
| | 2015 | 2014 | % change | 2015 | 2014 | % change |
| Realized gains (losses) on derivatives | \$ 8,625 | \$ (5,405) | (260) % | \$ 15,989 | \$ (8,941) | (279) % |
| Unrealized gains (losses) on derivatives | (6,363) | 16,436 | (139) % | (8,476) | (13,444) | (37) % |
| Total gains (losses) on derivatives | \$ 2,262 | \$ 11,031 | (79) % | \$ 7,513 | \$ (22,385) | (134) % |

For the three and six months ended June 30, 2015, we realized derivative gains as a result of the significant decline in natural gas prices as compared to our average hedge prices. For the six months ended June 30, 2015, an unrealized derivative loss of \$8.5 million was recognized, being the decrease in fair value to a net derivative asset of \$38.1 million at June 30, 2015 as compared to a net derivative asset of \$46.6 million at December 31, 2014. The fair value of the net derivative asset is the estimated value to settle the outstanding contracts as at a point in time. As such, unrealized derivative gains and losses are not cash 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. These derivative contracts will settle from July 1, 2015 to March 31, 2018 corresponding to when the Corporation will recognize sales from production.

Royalties

| | Three months ended | | | Six months ended | | |
|--|--------------------|----------|----------|------------------|----------|----------|
| | June 30 | | | June 30 | | |
| | 2015 | 2014 | % change | 2015 | 2014 | % change |
| Royalties (\$000) | \$ 1,236 | \$ 2,828 | (56) % | \$ 2,771 | \$ 5,538 | (50) % |
| per mcfe | \$ 0.11 | \$ 0.23 | (52) % | \$ 0.12 | \$ 0.24 | (50) % |
| Royalty Rate (percentage of natural gas and liquids sales) | 4.3% | 4.7% | (0.4) % | 4.5% | 4.7% | (0.2) % |

Advantage pays royalties to the owners of mineral rights from which we have leases. The Corporation currently has mineral leases with provincial governments, individuals and other companies. Our average corporate royalty rates are impacted by well depths, well production rates, commodity prices, and gas cost allowance. The expected royalty rate for the life of a Glacier Upper and Lower Montney horizontal well is approximately 5% before gas cost allowance due to industry provincial incentive programs. Total royalties paid during the three and six months ended June 30, 2015 are lower than the same periods of 2014 due to the significant decline in natural gas prices.

Operating Expense

| | Three months ended | | | Six months ended | | |
|---------------------------|--------------------|----------|----------|------------------|----------|----------|
| | June 30 | | | June 30 | | |
| | 2015 | 2014 | % change | 2015 | 2014 | % change |
| Operating expense (\$000) | \$ 4,172 | \$ 3,891 | 7 % | \$ 8,446 | \$ 6,948 | 22 % |
| per mcfe | \$ 0.37 | \$ 0.31 | 19 % | \$ 0.36 | \$ 0.30 | 20 % |

For the three and six months ended June 30, 2015, operating expense was \$0.37/mcfe and \$0.36/mcfe, higher by 19% and 20% respectively as compared to the same periods of 2014. The increases are due to higher third party water disposal and trucking costs resulting from the flowback of high volumes of water used during slick water completion operations and lower production in the second quarter of 2015 (see "Production"). Advantage has drilled an additional water disposal well that will be operational during the second half of 2015 that will help with the higher water volumes during initial flowback of newly completed wells.

General and Administrative Expense

| | Three months ended | | | Six months ended | | |
|--|--------------------|----------|----------|------------------|----------|----------|
| | June 30 | | | June 30 | | |
| | 2015 | 2014 | % change | 2015 | 2014 | % change |
| General and administrative expense | | | | | | |
| Cash expense (\$000) | \$ 2,115 | \$ 2,351 | (10) % | \$ 4,152 | \$ 4,603 | (10) % |
| per mcfe | \$ 0.19 | \$ 0.19 | - % | \$ 0.18 | \$ 0.20 | (10) % |
| Share based compensation (\$000) | \$ 767 | \$ 715 | 7 % | \$ 1,610 | \$ 1,037 | 55 % |
| per mcfe | \$ 0.07 | \$ 0.06 | 17 % | \$ 0.07 | \$ 0.04 | 75 % |
| Total general and administrative expense (\$000) | \$ 2,882 | \$ 3,066 | (6) % | \$ 5,762 | \$ 5,640 | 2 % |
| per mcfe | \$ 0.26 | \$ 0.25 | 4 % | \$ 0.25 | \$ 0.24 | 4 % |
| Employees at June 30 | | | | 26 | 25 | 4 % |

Cash general and administrative (“G&A”) expense for the three and six months ended June 30, 2015 decreased compared to the same periods of 2014 as cost efficiencies were realized with the termination of the Technical Services Agreement with Longview on February 1, 2014 whereby Advantage had previously provided the necessary personnel and technical services to manage Longview's business.

Share based compensation represents non-cash G&A expense associated with Advantage’s stock option plan and restricted and performance award plan that are designed to provide for long term compensation to service providers and to align the interests of service providers with that of shareholders. During the 2015 year Advantage has granted 1.0 million stock options and 0.3 million performance awards. As at June 30, 2015, a total of 4.4 million stock options and 0.7 million performance awards are unexercised which represents only 3.0% of Advantage’s total outstanding common shares.

Depreciation Expense

| | Three months ended | | | Six months ended | | |
|------------------------------|--------------------|-----------|----------|------------------|-----------|----------|
| | June 30 | | | June 30 | | |
| | 2015 | 2014 | % change | 2015 | 2014 | % change |
| Depreciation expense (\$000) | \$ 19,717 | \$ 22,278 | (11) % | \$ 40,484 | \$ 42,201 | (4) % |
| per mcfe | \$ 1.73 | \$ 1.80 | (4) % | \$ 1.73 | \$ 1.80 | (4) % |

Depreciation of natural gas and liquids properties is provided on the units-of–production method based on total proved and probable reserves, including future development costs, on a component basis. Depreciation expense for the six months ended June 30, 2015 was slightly lower than the same period of 2014 due primarily to a decrease in the rate of depreciation per mcfe on comparable production volume. The rate of depreciation expense per mcfe was lower as total costs, including future development costs, as a proportion of total proved and probable reserves declined due to the continued efficiency of reserve additions.

Finance Expense

| | Three months ended | | | Six months ended | | |
|-------------------------------|--------------------|----------|----------|------------------|----------|----------|
| | June 30 | | | June 30 | | |
| | 2015 | 2014 | % change | 2015 | 2014 | % change |
| Finance expense | | | | | | |
| Cash expense (\$000) | \$ 2,460 | \$ 2,640 | (7) % | \$ 4,733 | \$ 5,453 | (13) % |
| per mcfe | \$ 0.22 | \$ 0.21 | 5 % | \$ 0.20 | \$ 0.23 | (13) % |
| Accretion expense (\$000) | \$ 327 | \$ 1,134 | (71) % | \$ 878 | \$ 2,254 | (61) % |
| per mcfe | \$ 0.03 | \$ 0.09 | (68) % | \$ 0.04 | \$ 0.09 | (58) % |
| Total finance expense (\$000) | \$ 2,787 | \$ 3,774 | (26) % | \$ 5,611 | \$ 7,707 | (27) % |
| per mcfe | \$ 0.25 | \$ 0.30 | (17) % | \$ 0.24 | \$ 0.32 | (26) % |

Cash finance expense was consistent during both the three and six months ended June 30, 2015 as compared to the same periods of 2014. The Corporation's interest rates on bank indebtedness have decreased due to the lower total debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio as calculated pursuant to our Credit Facilities and are primarily based on short term bankers' acceptance rates plus a stamping fee. Additionally, the convertible debentures with a higher effective rate of 5% matured on January 30, 2015, and were settled with lower effective rate bank debt.

Accretion expense represents non-cash charges that increase the carrying value of the convertible debentures and decommissioning liability as a result of the passage of time. As the convertible debentures matured on January 30, 2015, accretion expense for the six months ended June 30, 2015 was lower than 2014.

Other Income (Expense)

| (\$000) | Three months ended | | | Six months ended | | |
|--|--------------------|------------|----------|------------------|-------------|----------|
| | June 30 | | | June 30 | | |
| | 2015 | 2014 | % change | 2015 | 2014 | % change |
| Interest income - Questfire Debenture | \$ - | \$ - | - % | \$ - | \$ 455 | (100) % |
| Accretion income - Questfire Debenture | - | - | - % | - | 557 | (100) % |
| Loss on disposition - Questfire Debenture | - | - | - % | - | (13,833) | (100) % |
| Gain on disposition - Questfire Class B Shares | - | - | - % | - | 150 | (100) % |
| Loss on sale of assets | - | (1,500) | (100) % | - | (1,500) | (100) % |
| Miscellaneous income | 125 | 6 | 1,983 % | 182 | 593 | (69) % |
| | \$ 125 | \$ (1,494) | (108) % | \$ 182 | \$ (13,578) | (101) % |

Advantage recognized interest and accretion income earned on the Questfire Debenture from April 2013 up to the first quarter of 2014, the time during which we owned the Debenture. During the first quarter of 2014, Advantage accepted a proposal from Questfire to redeem the Questfire Debenture for an aggregate purchase price of \$13.6 million and Advantage recognized a loss of \$13.8 million. During the same period, Advantage also accepted a Questfire offer to purchase by way of issuer bid, all of the Class B Shares, and recognized a net gain of \$0.2 million.

Taxes

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the six months ended June 30, 2015, the Corporation recognized a deferred income tax expense of \$4.0 million as a result of the \$6.1 million income before taxes from continuing operations and includes a \$1.6 million deferred income tax expense recognized in the second quarter of 2015 for the Alberta corporate tax rate increase from 10% to 12% enacted by the provincial government in June 2015. As at June 30, 2015, the Corporation had a deferred income tax liability balance of \$37.4 million.

Net Income (Loss) and Comprehensive Income (Loss) from Continuing Operations

| | Three months ended | | | Six months ended | | |
|--|--------------------|-----------|----------|------------------|----------|----------|
| | June 30 | | | June 30 | | |
| | 2015 | 2014 | % change | 2015 | 2014 | % change |
| Net income (loss) and comprehensive income | | | | | | |
| (loss) from continuing operations (\$000) | \$ (2,060) | \$ 24,330 | (108) % | \$ 2,011 | \$ 6,714 | (70) % |
| per share - basic and diluted | \$ (0.01) | \$ 0.14 | (107) % | \$ 0.01 | \$ 0.04 | (75) % |

Advantage's net income from continuing operations for the six months ended June 30, 2015 has decreased from 2014, primarily due to lower commodity prices during 2015. The higher deferred tax provision (see "Taxes") also negatively affected net income from continuing operations, and resulted in the net loss reported for the three months ended June 30, 2015.

Contractual Obligations and Commitments

The Corporation has contractual obligations in the normal course of operations including purchases of assets and services, operating agreements, transportation commitments, sales contracts and bank indebtedness. These obligations are of a recurring and consistent nature and impact cash flow in an ongoing manner. The following table is a summary of the Corporation's remaining contractual obligations and commitments. Advantage has no guarantees or off-balance sheet arrangements other than as disclosed.

| (\$ millions) | Payments due by period | | | | | |
|--|------------------------|----------------|-----------------|----------------|----------------|----------------|
| | Total | 2015 | 2016 & 2017 | 2018 & 2019 | 2020 | After 2020 |
| Building leases | \$ 4.6 | \$ 0.5 | \$ 2.3 | \$ 1.8 | \$ - | \$ - |
| Pipeline/transportation | 168.0 | 9.2 | 37.8 | 43.6 | 16.6 | 60.8 |
| Bank indebtedness ⁽¹⁾ - principal | 277.3 | - | 277.3 | - | - | - |
| - interest | 10.5 | 5.3 | 5.2 | - | - | - |
| Total contractual obligations | \$ 460.4 | \$ 15.0 | \$ 322.6 | \$ 45.4 | \$ 16.6 | \$ 60.8 |

(1) As at June 30, 2015, the Corporation's bank indebtedness was governed by a credit facility agreement with a syndicate of financial institutions. Under the terms of the agreement, the facility is reviewed annually, with the next review scheduled in June 2016. The facility is revolving and extendible at each annual review for a further 364 day period at the option of the syndicate. If not extended, the credit facility is converted at that time into a one-year term facility, with the principal payable at the end of such one-year term. Management fully expects that the facility will be extended at each annual review.

Liquidity and Capital Resources

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

| (\$000, except as otherwise indicated) | June 30, 2015 |
|---|----------------------|
| Bank indebtedness (non-current) | \$ 277,322 |
| Working capital deficit ⁽¹⁾ | 16,046 |
| Total debt | \$ 293,368 |
| Shares outstanding | 170,710,592 |
| Shares closing market price (\$/share) | \$ 7.90 |
| Market capitalization ⁽²⁾ | \$ 1,348,614 |
| Total capitalization | \$ 1,641,982 |
| Total debt to funds from operations ⁽³⁾ | 2.2 |

(1) Working capital deficit is a non-GAAP measure that includes trade and other receivables, prepaid expenses and deposits, and trade and other accrued liabilities.

(2) Market capitalization is a non-GAAP measure calculated by multiplying shares outstanding by the closing market share price on the applicable date.

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

Total debt to funds from operations is calculated by dividing total debt by funds from operations for the previous four quarters.

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 deficit, bank indebtedness, and share capital. Advantage may manage its capital structure by issuing new common shares, repurchasing outstanding common shares, obtaining additional financing through bank indebtedness, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend, or adjusting capital spending. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

Management of the Corporation's capital structure is facilitated through its financial and operational forecasting processes. Selected forecast information is frequently provided to the Board of Directors. This continual financial assessment process further enables the Corporation to mitigate risks. The Corporation continues to satisfy all liabilities and commitments as they come due and has \$172.7 million available on its \$450 million credit facility at June 30, 2015. For the remainder of 2015, we will be funding our capital expenditures from funds from operations and our available Credit Facilities, and have estimated that our total debt to trailing funds from operations ratio will be approximately 2.1 times based on a \$2.50/GJ natural gas price. We will continue to be very cognizant of maintaining financial flexibility and strength in the current environment.

Shareholders' Equity and Convertible Debentures

As at June 30, 2015, Advantage had 170.7 million common shares outstanding. During the six months ended June 30, 2015, Advantage issued 0.6 million common shares to service providers in exchange for the exercise of 1.7 million stock options. As at June 30, 2015, a total of 4.4 million stock options and 0.7 million performance awards are unexercised which represents only 3.0% of Advantage's total outstanding common shares. As at August 6, 2015, Advantage had 170.7 million common shares outstanding.

The Corporation had \$86.2 million of 5.00% convertible debentures outstanding at December 31, 2014 that were convertible to 10.0 million common shares based on the applicable conversion price. The convertible debentures matured on January 30, 2015 and was settled with cash from the Credit Facilities.

Bank Indebtedness, Credit Facilities and Other Obligations

At June 30, 2015, Advantage had bank indebtedness outstanding of \$277.3 million, an increase of \$167.4 million since December 31, 2014. The increase in bank indebtedness is consistent with our approved 2015 budget including planned capital expenditure activity that was more heavily weighted to the first half of 2015, and the \$86.2 million settlement of the convertible debentures that matured on January 30, 2015. Advantage's credit facilities borrowing base is \$450 million and is collateralized by a \$1 billion floating charge demand debenture covering all assets of the Corporation (the "Credit Facilities"). The borrowing base for the Credit Facilities is determined by the banking syndicate through a thorough evaluation of our reserve estimates based upon their own commodity price expectations. Revisions or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing base. The next annual review is scheduled to occur in June 2016. There can be no assurance that the Credit Facilities will be renewed at the current borrowing base level at that time.

Advantage had a working capital deficit of \$16.0 million as at June 30, 2015, a decrease from the prior quarter due to the relatively high level of capital expenditure activity that was underway at March 31, 2015. Our working capital includes items expected for normal operations such as trade receivables, prepaids, deposits, and trade payables and accruals. 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. Our working capital is normally in a deficit position due to our continuing capital development activities. We do not anticipate any problems in satisfying the working capital deficit and meeting future obligations as they become due as they can be satisfied with funds from operations and our available Credit Facilities.

Capital Expenditures

| (\$000) | Three months ended | | Six months ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30 | | June 30 | |
| | 2015 | 2014 | 2015 | 2014 |
| Drilling, completions and workovers | \$ 2,951 | \$ 14,799 | \$ 42,986 | \$ 58,906 |
| Well equipping and facilities | 16,443 | 6,214 | 53,763 | 9,581 |
| Other | - | - | 204 | - |
| Expenditures on property, plant and equipment | 19,394 | 21,013 | 96,953 | 68,487 |
| Expenditures on exploration and evaluation assets | 43 | - | 1,192 | 1,813 |
| Net capital expenditures⁽¹⁾ | \$ 19,437 | \$ 21,013 | \$ 98,145 | \$ 70,300 |

(1) Net capital expenditures excludes changes in non-cash working capital and change in decommissioning liability.

Advantage invested \$97.0 million on property, plant and equipment at Glacier for the six months ended June 30, 2015 with \$19.4 million invested in the current quarter.

During the second quarter approximately 85% of the expenditures were directed to our 100% owned Glacier gas plant expansion project and expansion of our gas gathering and sales pipeline infrastructure. Processing capacity at the Glacier gas plant is being increased to 250 mmcf/d including 70 mmcf/d of spare capacity to meet future production growth in 2016 and 2017. Additionally, the plant will be capable of processing varying amounts of dry and liquids rich gas production with the installation of natural gas liquids extraction and condensate stabilization equipment.

Due to strong well performance and a substantial inventory of available production, no new Montney horizontal wells were drilled or completed during the second quarter. During the first quarter, 10 horizontal wells were drilled and 6 wells were completed.

In the first quarter of 2015, Advantage acquired 5 additional sections of Lower Doig/Montney land rights in the greater Glacier area. Advantage now holds a total of 133 net sections (85,120 net acres) of either Lower Doig or Montney rights.

Sources and Uses of Funds

The following table summarizes the various funding requirements during the six months ended June 30, 2015 and 2014 and the sources of funding to meet those requirements:

| (\$000) | Six months ended June 30 | |
|---|-----------------------------|-------------------|
| | 2015 | 2014 |
| Sources of funds | | |
| Funds from operations | \$ 57,500 | \$ 88,010 |
| Increase in bank indebtedness | 167,817 | - |
| Disposition of Longview investment | - | 90,153 |
| Disposition of Questfire investments | - | 17,500 |
| Dividends received from Longview | - | 1,692 |
| | \$ 225,317 | \$ 197,355 |
| Uses of funds | | |
| Expenditures on property, plant and equipment | \$ 96,953 | \$ 68,487 |
| Maturity of convertible debenture | 86,240 | - |
| Decrease in bank indebtedness | - | 82,345 |
| Change in non-cash working capital and other | 40,541 | 44,663 |
| Expenditures on exploration and evaluation assets | 1,192 | 1,813 |
| Expenditures on decommissioning liability | 391 | 47 |
| | \$ 225,317 | \$ 197,355 |

Bank indebtedness increased as planned during the six months ended June 30, 2015 to fund capital expenditures and the maturity of our convertible debentures on January 30, 2015. As in previous years, a higher level of capital activity was scheduled for the first half of 2015 compared to the remainder of the year. For the 2015 year, we will be funding our capital expenditures with funds from operations and our available Credit Facilities, and have estimated that our total debt to trailing funds from operations ratio will be approximately 2.1 times based on a \$2.50/GJ natural gas price. We monitor the debt level to ensure an optimal mix of financing and cost of capital that will provide a maximum return to our shareholders.

FINANCIAL AND OPERATING REVIEW – DISCONTINUED OPERATIONS

The following financial and operating highlights for Longview to February 28, 2014 have been presented to provide additional information with respect to the Longview segment prior to disposition.

| | Six months ended June 30 | |
|--|-----------------------------|---------------------|
| | 2015 | 2014 ⁽¹⁾ |
| Production (boe/d) | - | 5,622 |
| Funds from operations (\$000) | \$ - | \$ 10,019 |
| Net capital expenditures (\$000) | \$ - | \$ 19,092 |
| Net loss and comprehensive loss from discontinued operations (\$000) | \$ - | \$ (58,894) |
| per share - basic and diluted | \$ - | \$ (0.35) |

(1) Represents the financial and operating results for the Longview segment for the 59 days from January 1, 2014 to February 28, 2014.

Quarterly Performance

| (\$000, except as otherwise indicated) | 2015 | | | 2014 | | | 2013 | | |
|--|------------|-----------|-----------|-----------|-----------|-------------|------------|------------|--|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | |
| Continuing Operations - Advantage | | | | | | | | | |
| Daily production | | | | | | | | | |
| Natural gas (mcf/d) | 124,299 | 133,281 | 133,433 | 131,553 | 134,912 | 122,481 | 108,260 | 111,518 | |
| Liquids (bbls/d) | 112 | 112 | 113 | 161 | 200 | 164 | 79 | 105 | |
| Total (mcf/d) | 124,971 | 133,953 | 134,111 | 132,519 | 136,112 | 123,465 | 108,734 | 112,148 | |
| Average prices | | | | | | | | | |
| Natural gas (\$/mcf) | | | | | | | | | |
| Excluding hedging | \$ 2.50 | \$ 2.68 | \$ 3.78 | \$ 4.03 | \$ 4.71 | \$ 5.21 | \$ 3.21 | \$ 2.46 | |
| Including hedging | \$ 3.27 | \$ 3.30 | \$ 3.72 | \$ 3.80 | \$ 4.27 | \$ 4.89 | \$ 3.39 | \$ 2.63 | |
| AECO daily | \$ 2.66 | \$ 2.76 | \$ 3.61 | \$ 4.02 | \$ 4.69 | \$ 5.59 | \$ 3.52 | \$ 2.45 | |
| AECO monthly | \$ 2.67 | \$ 2.96 | \$ 4.01 | \$ 4.22 | \$ 4.68 | \$ 4.77 | \$ 3.15 | \$ 2.82 | |
| Liquids (\$/bbl) | | | | | | | | | |
| Including hedging | \$ 47.91 | \$ 41.86 | \$ 71.35 | \$ 83.14 | \$ 102.41 | \$ 94.10 | \$ 77.01 | \$ 95.13 | |
| Edmonton Light (\$/bbl) | \$ 67.68 | \$ 51.73 | \$ 75.54 | \$ 97.07 | \$ 105.65 | \$ 99.99 | \$ 86.88 | \$ 104.96 | |
| Total sales including realized hedging | \$ 37,429 | \$ 39,991 | \$ 46,409 | \$ 47,190 | \$ 54,265 | \$ 55,239 | \$ 34,304 | \$ 27,857 | |
| Net income (loss) | \$ (2,060) | \$ 4,071 | \$ 53,682 | \$ 14,201 | \$ 24,330 | \$ (17,616) | \$ (6,273) | \$ (3,187) | |
| per share - basic and diluted | \$ (0.01) | \$ 0.02 | \$ 0.32 | \$ 0.08 | \$ 0.14 | \$ (0.10) | \$ (0.04) | \$ (0.02) | |
| Funds from operations | \$ 27,571 | \$ 29,929 | \$ 39,182 | \$ 36,818 | \$ 42,561 | \$ 45,449 | \$ 23,822 | \$ 16,516 | |
| Discontinued Operations - Longview | | | | | | | | | |
| Total sales including realized hedging | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 23,237 | \$ 33,721 | \$ 38,234 | |
| Net income (loss) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (58,894) | \$ 870 | \$ 1,845 | |
| per share - basic and diluted ⁽¹⁾ | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (0.35) | \$ 0.01 | \$ 0.01 | |
| Funds from operations | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 10,019 | \$ 13,740 | \$ 17,959 | |

⁽¹⁾ Per share amounts based on weighted average basic and diluted shares outstanding of Advantage Oil & Gas Ltd.

The table above highlights the Corporation's performance for the second quarter of 2015 and also for the preceding seven quarters for both continuing and discontinued operations. We increased our capital development program at Glacier in the third quarter of 2013 resulting in additional production during the first quarter of 2014 as we reached our target of 135 mmcf/d in March 2014. The Corporation's second quarter 2015 production was impacted by a TCPL unplanned firm service outage in addition to Advantage's planned outages required to install new equipment for the Glacier gas plant expansion. At the end of the second quarter of 2015, we had an inventory of thirty-three (33) standing wells, consisting of twenty-two (22) wells that were completed. In July 2015, production reached 183 mmcf/d during the first phase of commissioning operations at our expanded Glacier plant.

During the third quarter of 2013, sales and funds from operations decreased due to significant reductions in AECO prices that impacted the entire Alberta natural gas industry. Sales and funds from operations increased dramatically in 2014 primarily attributable to improved natural gas prices and production growth but has since decreased during the first and second quarters of 2015 as natural gas prices declined. Advantage has generally reported net losses primarily driven by periods of weak natural gas prices. In the first quarter of 2014, Advantage recognized a \$13.8 million loss on redemption of the Questfire Debenture and a \$58.8 million loss on disposition of the Longview operating segment as the net proceeds received by Advantage were less than the carrying value of the net assets. As a pure Montney producer, Advantage now has a much simpler capitalization structure and a strong balance sheet to continue its multi-year development plan. Advantage's production growth at Glacier has generally resulted in strong and stable sales including realized hedging, net income and funds from operations from the second quarter of 2014 to the first half of 2015, despite the decline in natural gas prices.

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 and comprehensive income through depreciation and impairment of natural gas and liquids properties. The reserve estimates are also used to assess the borrowing base for the Corporation's Credit Facilities. Revision or changes in the reserve estimates can have either a positive or a negative impact on asset values, net income, comprehensive income and the borrowing base of the Corporation.

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. These estimates are significant and can include proved and probable reserves, future production rates, future commodity prices, future costs, future interest rates, future tax 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 and comprehensive income.

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 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.

Changes in Accounting Policies

There have been no changes in accounting policies during the six months ended June 30, 2015.

Accounting Pronouncements not yet Adopted

There have been no changes to accounting pronouncements not yet adopted during the six months ended June 30, 2015. Additional information concerning accounting pronouncements not yet adopted is disclosed in the notes to the audited consolidated financial statements and MD&A for the year ended December 31, 2014.

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.

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, 2015 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.

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.

August 6, 2015

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

| (thousands of Canadian dollars) (unaudited) | Notes | June 30, 2015 | December 31, 2014 |
|---|-------|---------------------|---------------------|
| ASSETS | | | |
| Current assets | | | |
| Trade and other receivables | | \$ 10,219 | \$ 21,974 |
| Prepaid expenses and deposits | | 2,258 | 2,503 |
| Derivative asset | 5 | 27,684 | 31,595 |
| Total current assets | | 40,161 | 56,072 |
| Non-current assets | | | |
| Derivative asset | 5 | 11,655 | 14,961 |
| Exploration and evaluation assets | | 10,995 | 9,803 |
| Property, plant and equipment | 4 | 1,431,058 | 1,373,931 |
| Total non-current assets | | 1,453,708 | 1,398,695 |
| Total assets | | \$ 1,493,869 | \$ 1,454,767 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other accrued liabilities | | \$ 28,523 | \$ 81,741 |
| Convertible debenture | | - | 85,941 |
| Total current liabilities | | 28,523 | 167,682 |
| Non-current liabilities | | | |
| Derivative liability | 5 | 1,259 | - |
| Performance incentive plan | 3 (a) | - | 512 |
| Bank indebtedness | 6 | 277,322 | 109,970 |
| Decommissioning liability | 7 | 49,714 | 48,878 |
| Deferred income tax liability | 8 | 37,440 | 33,399 |
| Total non-current liabilities | | 365,735 | 192,759 |
| Total liabilities | | 394,258 | 360,441 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 9 | 2,236,332 | 2,234,959 |
| Convertible debenture equity component | | - | 8,348 |
| Contributed surplus | | 101,153 | 90,904 |
| Deficit | | (1,237,874) | (1,239,885) |
| Total shareholders' equity | | 1,099,611 | 1,094,326 |
| Total liabilities and shareholders' equity | | \$ 1,493,869 | \$ 1,454,767 |

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statement of Comprehensive Income (Loss)

| | Notes | Three months ended June 30 | | Six months ended June 30 | |
|---|-------|-------------------------------|------------------|-----------------------------|--------------------|
| | | 2015 | 2014 | 2015 | 2014 |
| <i>(thousands of Canadian dollars, except for per share amounts) (unaudited)</i> | | | | | |
| Continuing operations | | | | | |
| Natural gas and liquids sales | | \$ 28,804 | \$ 59,670 | \$ 61,431 | \$ 118,445 |
| Less: royalties | | (1,236) | (2,828) | (2,771) | (5,538) |
| Natural gas and liquids revenue | | 27,568 | 56,842 | 58,660 | 112,907 |
| Operating expense | | (4,172) | (3,891) | (8,446) | (6,948) |
| General and administrative expense | | (2,882) | (3,066) | (5,762) | (5,640) |
| Depreciation expense | 4 | (19,717) | (22,278) | (40,484) | (42,201) |
| Exploration expense | | - | (53) | - | (53) |
| Finance expense | | (2,787) | (3,774) | (5,611) | (7,707) |
| Gains (losses) on derivatives | 5 | 2,262 | 11,031 | 7,513 | (22,385) |
| Other income (expenses) | 12 | 125 | (1,494) | 182 | (13,578) |
| Income before taxes from continuing operations | | 397 | 33,317 | 6,052 | 14,395 |
| Income tax expense | 8 | (2,457) | (8,987) | (4,041) | (7,681) |
| Net income (loss) and comprehensive income (loss) from continuing operations | | (2,060) | 24,330 | 2,011 | 6,714 |
| Discontinued operations | | | | | |
| Net loss from discontinued operations | 14 | - | - | - | (58,894) |
| Net income (loss) and comprehensive income (loss) | | \$ (2,060) | \$ 24,330 | \$ 2,011 | \$ (52,180) |
| Net income (loss) per share | | | | | |
| Basic and diluted - from continuing operations | 10 | \$ (0.01) | \$ 0.14 | \$ 0.01 | \$ 0.04 |
| Basic and diluted - from discontinued operations | | - | - | - | (0.35) |
| Basic and diluted | | \$ (0.01) | \$ 0.14 | \$ 0.01 | \$ (0.31) |

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statement of Changes in Shareholders' Equity

| (thousands of Canadian dollars) (unaudited) | Notes | Share capital | Convertible debenture equity component | Contributed surplus | Deficit | Total shareholders' equity |
|---|-------|---------------------|---|------------------------|-----------------------|----------------------------------|
| Balance, December 31, 2014 | | \$ 2,234,959 | \$ 8,348 | \$ 90,904 | \$ (1,239,885) | \$ 1,094,326 |
| Net income and comprehensive income | | - | - | - | 2,011 | 2,011 |
| Share based compensation | 9, 11 | 1,363 | - | 1,901 | - | 3,264 |
| Conversion of Convertible Debenture | | 10 | - | - | - | 10 |
| Maturity of Convertible Debenture | | - | (8,348) | 8,348 | - | - |
| Balance, June 30, 2015 | | \$ 2,236,332 | \$ - | \$ 101,153 | \$ (1,237,874) | \$ 1,099,611 |

| (thousands of Canadian dollars) (unaudited) | Notes | Share capital | Convertible debenture equity component | Contributed surplus | Deficit | Total shareholders' equity attributable to Advantage shareholders | Non- controlling interest | Total shareholders' equity |
|--|-------|---------------------|---|------------------------|-----------------------|--|---------------------------------|----------------------------------|
| Balance, December 31, 2013 | | \$ 2,229,598 | \$ 8,348 | \$ 92,276 | \$ (1,255,588) | \$ 1,074,634 | \$ 129,779 | \$ 1,204,413 |
| Net loss and comprehensive loss | | - | - | - | (52,180) | (52,180) | (85) | (52,265) |
| Share based compensation | 9, 11 | 3,891 | - | (1,536) | - | 2,355 | - | 2,355 |
| Change in ownership interest, share based compensation | | - | - | - | - | - | 334 | 334 |
| Dividends declared by Longview (\$0.04 per Longview share) | | - | - | - | - | - | (1,032) | (1,032) |
| Disposition of Longview | 14 | - | - | - | - | - | (128,996) | (128,996) |
| Balance, June 30, 2014 | | \$ 2,233,489 | \$ 8,348 | \$ 90,740 | \$ (1,307,768) | \$ 1,024,809 | \$ - | \$ 1,024,809 |

See accompanying Notes to the Interim Consolidated Financial Statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 (unaudited)

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

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

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

Advantage is domiciled and incorporated in Canada under the Business Corporations Act (Alberta). Advantage’s head office address is 300, 440 – 2nd Avenue SW, Calgary, Alberta, Canada. The Corporation’s primary listing is on the Toronto Stock Exchange and is also traded on the New York Stock Exchange as a Foreign Private Issuer, under the symbol “AAV”.

2. Basis of preparation

(a) Statement of compliance

The Corporation prepares its interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”) as defined in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). The CICA Handbook incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, 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, 2014. 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 interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of August 6, 2015, the date the Board of Directors approved the statements.

(b) Basis of measurement

The interim 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, 2014.

The methods used to measure fair values of derivative instruments are discussed in note 5.

(c) Functional and presentation currency

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

3. Significant accounting policies

(a) Accounting policy applied to recent event

On May 27, 2015, shareholders of the Corporation voted in favor of a resolution to approve the Restricted and Performance Award Incentive Plan as described in the management information circular dated April 24, 2015 (see note 11(b)). The effect of this vote was to give shareholder approval to the existing plan approved by the Board of Directors on April 14, 2014, and in so doing, enable the Corporation to settle awards under the plan with shares, which is the intention of the Corporation. As such, the plan is no longer “cash-settled,” but “equity-settled” as defined in *IFRS 2, Share Based Payments*. In accordance with the requirements of IFRS 2, the liability on the statement of financial position at May 27, 2015 relating to awards granted under this plan was transferred to equity (contributed surplus), and revaluation will no longer occur at each reporting date.

4. Property, plant and equipment

| Cost | Natural gas and liquids properties | Furniture and equipment | Total |
|--|---|--|--------------|
| Balance at December 31, 2013 | \$ 2,104,397 | \$ 5,240 | \$ 2,109,637 |
| Additions | 252,556 | - | 252,556 |
| Change in decommissioning liability (note 7) | 19,938 | - | 19,938 |
| Disposition of Longview (note 14) | (664,090) | - | (664,090) |
| Transferred from exploration and evaluation assets | 1,316 | - | 1,316 |
| Balance at December 31, 2014 | \$ 1,714,117 | \$ 5,240 | \$ 1,719,357 |
| Additions | 96,800 | 153 | 96,953 |
| Change in decommissioning liability (note 7) | 658 | - | 658 |
| Balance at June 30, 2015 | \$ 1,811,575 | \$ 5,393 | \$ 1,816,968 |

| Accumulated depreciation | Natural gas and liquids properties | Furniture and equipment | Total |
|-----------------------------------|---|--|--------------|
| Balance at December 31, 2013 | \$ 459,113 | \$ 3,090 | \$ 462,203 |
| Depreciation | 91,168 | 430 | 91,598 |
| Disposition of Longview (note 14) | (208,375) | - | (208,375) |
| Balance at December 31, 2014 | \$ 341,906 | \$ 3,520 | \$ 345,426 |
| Depreciation | 40,297 | 187 | 40,484 |
| Balance at June 30, 2015 | \$ 382,203 | \$ 3,707 | \$ 385,910 |

| Net book value | Natural gas and liquids properties | Furniture and equipment | Total |
|-----------------------|---|--|--------------|
| At December 31, 2014 | \$ 1,372,211 | \$ 1,720 | \$ 1,373,931 |
| At June 30, 2015 | 1,429,372 | 1,686 | 1,431,058 |

5. Financial risk management

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

Trade and other receivables and deposits are classified as loans and receivables and measured at amortized cost. Trade and other accrued liabilities and bank indebtedness are all classified as financial liabilities at amortized cost. As at June 30, 2015, there were no significant differences between the carrying amounts reported on the Interim Consolidated Statement of Financial Position and the estimated fair values of these financial instruments due to the short terms to maturity and the floating interest rate on the bank indebtedness.

Fair value is determined following a three level hierarchy:

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

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

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

5. Financial risk management (continued)

(a) Price and currency risk

As at June 30, 2015, the Corporation's natural gas hedging positions are summarized as follows:

| Period | Average Production Hedged | Average Price AECO (\$Cdn.) |
|--------------------|------------------------------|--------------------------------|
| Q3 2015 to Q4 2015 | 92.4 mmcf/d | \$3.73/mcf |
| Q1 2016 to Q4 2016 | 94.8 mmcf/d | \$3.62/mcf |
| Q1 2017 to Q4 2017 | 34.4 mmcf/d | \$3.37/mcf |
| Q1 2018 | 19.0 mmcf/d | \$3.27/mcf |

The fair value of the commodity risk management derivatives have been allocated to current assets and liabilities on the basis of expected timing of cash settlement.

(b) Capital management

Advantage's capital structure as at June 30, 2015 and December 31, 2014 is as follows:

| | June 30, 2015 | December 31, 2014 |
|--|---------------------|---------------------|
| Bank indebtedness (non-current) (note 6) | \$ 277,322 | \$ 109,970 |
| Working capital deficit ⁽¹⁾ | 16,046 | 57,264 |
| Net debt | 293,368 | 167,234 |
| Convertible debenture maturity value (current) | - | 86,250 |
| Total debt | \$ 293,368 | \$ 253,484 |
| Shares outstanding (note 9) | 170,710,592 | 170,067,650 |
| Share closing market price (\$/share) | \$ 7.90 | \$ 5.56 |
| Market capitalization ⁽²⁾ | 1,348,614 | 945,576 |
| Total capitalization | \$ 1,641,982 | \$ 1,199,060 |

(1) Working capital deficit is a non-GAAP measure that includes trade and other receivables, prepaid expenses and deposits and trade and other accrued liabilities.

(2) Market capitalization is a non-GAAP measure calculated by multiplying shares outstanding by the closing market share price on the applicable date.

6. Bank indebtedness

| | June 30, 2015 | December 31, 2014 |
|--|-------------------|-------------------|
| Revolving credit facility | \$ 278,149 | \$ 110,332 |
| Discount on Bankers Acceptances and other fees | (827) | (362) |
| Balance, end of period | \$ 277,322 | \$ 109,970 |

As at June 30, 2015, the Corporation had credit facilities (the "Credit Facilities") of \$450 million. The Credit Facilities are comprised of a \$20 million extendible revolving operating loan facility from one financial institution and a \$430 million extendible revolving loan facility from a syndicate of financial institutions. The revolving period for the Credit Facilities will end in June 2016 unless extended at the option of the syndicate for a further 364 day period. The only financial covenant is a requirement to maintain a minimum cash flow to interest expense ratio of 3.5:1, determined on a rolling four-quarter basis. This covenant was met at June 30, 2015 and December 31, 2014.

7. Decommissioning liability

The Corporation's decommissioning liability results from net ownership interests in natural gas and liquids assets including well sites, gathering systems and processing facilities, all of which will require future costs of decommissioning under environmental legislation. These costs are expected to be incurred between 2015 and 2074. A risk-free rate of 2.38% (December 31, 2014 – 2.33%) and an inflation factor of 2% (December 31, 2014 – 2%) were used to calculate the fair value of the decommissioning liability at June 30, 2015. A reconciliation of the decommissioning liability is provided below:

| | Six months ended June 30, 2015 | Year ended December 31, 2014 |
|------------------------------------|-----------------------------------|---------------------------------|
| Balance, beginning of year | \$ 48,878 | \$ 100,616 |
| Accretion expense | 569 | 1,364 |
| Liabilities incurred | 858 | 4,218 |
| Change in estimates | (874) | 683 |
| Effect of change in risk-free rate | 674 | 15,037 |
| Liabilities settled | (391) | (482) |
| Disposition of Longview (note 14) | - | (72,558) |
| Balance, end of period | \$ 49,714 | \$ 48,878 |

8. Income taxes

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. A deferred tax asset has not been recognized for capital losses, since recognition is dependent on the realization of future taxable capital gains. In the second quarter of 2015, the Alberta provincial government enacted a corporate tax rate increase from 10% to 12%, which increased the Corporation's deferred income tax expense by \$1.6 million.

9. Share capital

(a) Authorized

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

(b) Issued

| | Common Shares | Amount |
|-------------------------------------|---------------|--------------|
| Balance at December 31, 2013 | 168,382,838 | \$ 2,229,598 |
| Share based compensation (note 11) | 1,684,812 | 5,361 |
| Balance at December 31, 2014 | 170,067,650 | \$ 2,234,959 |
| Share based compensation (note 11) | 641,780 | 1,363 |
| Conversion of convertible debenture | 1,162 | 10 |
| Balance at June 30, 2015 | 170,710,592 | \$ 2,236,332 |

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

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

| | Three months ended June 30 | | Six months ended June 30 | |
|--|-------------------------------|-------------|-----------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income (loss) attributable to Advantage shareholders | | | | |
| Basic and diluted - continuing operations | \$ (2,060) | \$ 24,330 | \$ 2,011 | \$ 6,714 |
| Basic and diluted - discontinued operations | - | - | - | (58,894) |
| Basic and diluted | \$ (2,060) | \$ 24,330 | \$ 2,011 | \$ (52,180) |
| Weighted average shares outstanding | | | | |
| Basic | 170,666,813 | 169,354,438 | 170,485,129 | 169,028,836 |
| Stock Option Plan | - | 1,765,621 | 915,174 | 1,709,871 |
| Performance Incentive Plan | - | - | 42,871 | - |
| Diluted | 170,666,813 | 171,120,059 | 171,443,174 | 170,738,707 |

The calculation of diluted net income (loss) per share for the three and six months ended June 30, 2015 and 2014 excludes the convertible debenture, as its impact would be anti-dilutive. Total weighted average shares issuable in exchange for the convertible debenture excluded from the diluted net income (loss) per share calculation for the six months ended June 30, 2015 was 1,606,868 shares. Total weighted average shares issuable in exchange for the convertible debenture excluded from the diluted net income (loss) per share calculation for both the three and six months ended June 30, 2014 was 10,029,070 shares. On January 30, 2015, the convertible debenture matured and was settled in cash, with the exception of \$10,000, which was converted to 1,162 common shares. As at December 31, 2014, the total convertible debenture outstanding was convertible to 10,029,070 shares.

The calculation of diluted net loss per share for the three months ended June 30, 2015 excludes the effects of the Stock Option Plan and the Performance Incentive Plan, as their impacts would be anti-dilutive. Total weighted average shares of 1,004,596 and 114,052 in respect of the Stock Option Plan and Performance Incentive Plan, respectively were excluded from the diluted net loss per share calculation for the three months ended June 30, 2015.

The calculation of diluted net loss per share for the three and six months ended June 30, 2014 excluded the effects of the Performance Incentive Plan, as this plan was cash-settled until May 27, 2015 (note 3(a)).

11. Share based compensation

(a) Stock option plan

The following tables summarize information about changes in stock options outstanding at June 30, 2015:

| | Stock Options | Weighted-Average Exercise Price |
|------------------------------|---------------|------------------------------------|
| Balance at December 31, 2013 | 13,060,843 | \$ 3.68 |
| Exercised | (7,435,115) | 3.67 |
| Granted | 3,777,255 | 5.00 |
| Forfeited/cancelled | (4,258,307) | 3.70 |
| Balance at December 31, 2014 | 5,144,676 | \$ 4.63 |
| Exercised | (1,716,043) | 3.87 |
| Granted | 987,928 | 6.82 |
| Forfeited/cancelled | (19,764) | 5.37 |
| Balance at June 30, 2015 | 4,396,797 | \$ 5.42 |

| Stock Options Outstanding | | | | Stock Options Exercisable | |
|----------------------------|---|--|--|--|---------------------------------------|
| Range of Exercise Price | Number of Stock Options Outstanding | Weighted Average Remaining Contractual Life - Years | Weighted Average Exercise Price | Number of Stock Options Exercisable | Weighted Average Exercise Price |
| \$4.43 - \$5.87 | 3,397,795 | 2.52 | \$ 5.01 | 960,156 | \$ 5.03 |
| \$5.88 - \$6.82 | 999,002 | 4.76 | 6.81 | 1,972 | 6.19 |
| \$4.43 - \$6.82 | 4,396,797 | 3.03 | \$ 5.42 | 962,128 | \$ 5.04 |

(b) Performance Incentive Plan

Under the Performance Incentive Plan, service providers can be granted two types of Incentive Awards: Restricted Awards and Performance Awards. A Restricted Award is a grant denominated in a fixed number of common shares which generally vests 1/3 on the first anniversary of the grant date, 1/3 on the second anniversary, and 1/3 on the third anniversary. A Performance Award is a grant denominated in a fixed number of common shares which vests on the third anniversary of the grant date. Performance Award grants are multiplied by a Payout Multiplier, that is determined based on Corporate Performance Measures, as approved by the Board of Directors.

As at June 30, 2015, no Restricted Awards have been granted.

The following table is a continuity of Performance Awards:

| | Performance Awards |
|------------------------------|--------------------|
| Balance at December 31, 2013 | - |
| Granted | 409,702 |
| Forfeited | (3,560) |
| Balance at December 31, 2014 | 406,142 |
| Granted | 263,510 |
| Forfeited | (3,560) |
| Balance at June 30, 2015 | 666,092 |

11. Share based compensation (continued)

Share based compensation recognized by plan for the three and six months ended June 30, 2015 and 2014 are as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|--------------------------------------|-------------------------------|----------|-----------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Stock Option Plan | \$ 602 | \$ 1,065 | \$ 1,285 | \$ 1,631 |
| Performance Incentive Plan | 709 | 190 | 1,467 | 190 |
| RSPIP ⁽¹⁾ | - | - | - | 1,058 |
| Total share based compensation | 1,311 | 1,255 | 2,752 | 2,879 |
| Capitalized | (544) | (540) | (1,142) | (1,176) |
| Net share based compensation expense | \$ 767 | \$ 715 | \$ 1,610 | \$ 1,703 |
| From continuing operations | \$ 767 | \$ 715 | \$ 1,610 | \$ 1,037 |
| From discontinued operations | - | - | - | 666 |
| | \$ 767 | \$ 715 | \$ 1,610 | \$ 1,703 |

⁽¹⁾ Relates solely to discontinued operations

12. Other income (expenses)

| | Three months ended June 30 | | Six months ended June 30 | |
|--|-------------------------------|------------|-----------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Interest income - Questfire Debenture | \$ - | \$ - | \$ - | \$ 455 |
| Accretion income - Questfire Debenture | - | - | - | 557 |
| Loss on disposition of Questfire Debenture | - | - | - | (13,833) |
| Unrealized gain - Questfire Class B Shares | - | - | - | 3,150 |
| Unrealized loss on other liability | - | - | - | (3,000) |
| Loss on sale of assets | - | (1,500) | - | (1,500) |
| Miscellaneous income | 125 | 6 | 182 | 593 |
| Total other income (expenses) | \$ 125 | \$ (1,494) | \$ 182 | \$ (13,578) |

13. Supplementary cash flow information – continuing operations

Changes in non-cash working capital is comprised of:

| | Six months ended June 30 | |
|-------------------------------------|-----------------------------|--------------------|
| | 2015 | 2014 |
| Source (use) of cash: | | |
| Trade and other receivables | \$ 11,755 | \$ (5,017) |
| Prepaid expenses and deposits | 245 | 556 |
| Trade and other accrued liabilities | (53,218) | (38,410) |
| | <u>\$ (41,218)</u> | <u>\$ (42,871)</u> |
| Related to operating activities | \$ (17,869) | \$ (27,158) |
| Related to financing activities | (1,808) | 2,706 |
| Related to investing activities | (21,541) | (18,419) |
| | <u>\$ (41,218)</u> | <u>\$ (42,871)</u> |

14. Discontinued operations

The Corporation was previously comprised of two operating segments: Advantage Oil & Gas Ltd. (“Advantage”) and Longview Oil Corp. (“Longview”). Advantage develops and operates a natural gas focused property in Alberta. Longview developed and operated primarily conventional oil and natural gas liquids focused properties in Alberta and Saskatchewan. On February 28, 2014, the Corporation discontinued the Longview segment by selling its investment in Longview pursuant to an Offering.

Results of the discontinued Longview segment are as follows:

| (thousands of Canadian dollars) | Six months ended June 30 | |
|---|-----------------------------|---------------------|
| | 2015 | 2014 ⁽¹⁾ |
| Petroleum and natural gas sales | \$ - | \$ 24,715 |
| Less: royalties | - | (4,108) |
| Petroleum and natural gas revenue | - | 20,607 |
| Operating expense | - | (7,022) |
| General and administrative expense | - | (1,891) |
| Depreciation expense | - | (6,138) |
| Finance expense | - | (1,189) |
| Losses on derivatives | - | (4,323) |
| Non-controlling interest | - | 85 |
| Income before taxes from discontinued operations | - | 129 |
| Income tax expense | - | (198) |
| Loss from discontinued operations | - | (69) |
| Loss on disposition of Longview | - | (58,825) |
| Net loss from discontinued operations | \$ - | \$ (58,894) |

⁽¹⁾ Results from January 1, 2014 to February 28, 2014

Cash flows of the discontinued Longview segment are as follows:

| (thousands of Canadian dollars) | Six months ended June 30 | |
|-------------------------------------|-----------------------------|-----------|
| | 2015 | 2014 |
| Cash flow from operating activities | \$ - | \$ 12,434 |
| Cash flow from financing activities | - | 435 |
| Cash flow from investing activities | - | 78,976 |

Directors

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

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Reserve Evaluation Committee

⁽³⁾ Member of Human Resources, Compensation & Corporate Governance Committee

Officers

Andy J. Mah, President and CEO
Craig Blackwood, Vice President, Finance and CFO
Neil Bokenfohr, Senior Vice President

Corporate Secretary

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

Auditors

PricewaterhouseCoopers LLP

Bankers

The Bank of Nova Scotia
National Bank of Canada
Royal Bank of Canada
Canadian Imperial Bank of Commerce
Union Bank, Canada Branch
Alberta Treasury Branches
Wells Fargo Bank N.A., /Canada Branch

Independent Reserve Evaluators

Sproule Associates Limited

Legal Counsel

Burnet, Duckworth and Palmer LLP

Transfer Agent

Computershare Trust Company of Canada

Abbreviations

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

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Toronto Stock Exchange Trading Symbols

Shares: AAV

New York Stock Exchange Trading Symbol

Shares: AAV