

## 2018 Second Quarter Report

Financial and Operating Highlights	Three months ended		Six months ended	
	June 30		June 30	
	2018	2017	2018	2017
<b>Financial (\$000, except as otherwise indicated)</b>				
Sales including realized hedging <sup>(3)</sup>	\$ 45,319	\$ 69,169	\$ 118,697	\$ 142,126
Net income (loss) and comprehensive income (loss)	\$ (15,294)	\$ 18,339	\$ (5,191)	\$ 60,588
per basic share	\$ (0.08)	\$ (0.05)	\$ (0.03)	\$ 0.33
Funds from operations <sup>(1)</sup>	\$ 23,160	\$ 48,625	\$ 72,042	\$ 102,597
per basic share	\$ 0.12	\$ 0.26	\$ 0.39	\$ 0.55
Net capital expenditures	\$ 25,761	\$ 31,462	\$ 103,397	\$ 85,253
Working capital deficit	\$ 3,206	\$ 6,950	\$ 3,206	\$ 6,950
Bank indebtedness	\$ 250,189	\$ 134,128	\$ 250,189	\$ 134,128
Basic weighted average shares (000)	186,190	185,790	186,077	185,319
<b>Operating</b>				
Daily Production				
Natural gas (mcf/d)	205,712	225,844	219,009	228,363
Liquids (bbls/d)	1,067	1,098	1,086	1,124
Total mcf/d	212,114	232,432	225,525	235,107
Total boe/d	35,352	38,739	37,588	39,185
Average prices (including hedging)				
Natural gas (\$/mcf) <sup>(3)</sup>	\$ 2.05	\$ 3.09	\$ 2.65	\$ 3.17
Liquids (\$/bbl)	\$ 72.32	\$ 57.27	\$ 69.17	\$ 55.47
<b>Cash netbacks (\$/mcf) <sup>(1)</sup></b>				
Sales of natural gas and liquids from production	\$ 1.94	\$ 3.16	\$ 2.34	\$ 3.17
Net sales of natural gas purchased from third parties <sup>(1)</sup>	0.06	-	0.03	-
Realized gains on derivatives	0.41	0.11	0.57	0.17
Royalty expense	0.06	(0.15)	-	(0.13)
Operating expense	(0.34)	(0.27)	(0.33)	(0.25)
Transportation expense	(0.63)	(0.37)	(0.60)	(0.37)
Operating netback <sup>(1)</sup>	1.50	2.48	2.01	2.59
General and administrative	(0.13)	(0.12)	(0.10)	(0.11)
Settlement of Performance Awards	(0.03)	-	(0.01)	-
Finance expense	(0.14)	(0.07)	(0.12)	(0.08)
Other income	-	0.01	-	-
Cash netbacks <sup>(1)</sup>	\$ 1.20	\$ 2.30	\$ 1.78	\$ 2.40

<sup>(1)</sup> Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities.

<sup>(2)</sup> Based on basic weighted average shares outstanding.

<sup>(3)</sup> Excludes net sales of natural gas purchased from third parties.

## MESSAGE TO SHAREHOLDERS

### Commissioning of Glacier Gas Plant Expansion to 400 mmcf/d Creates Significant Available Processing Capacity for Future Growth

**Calgary, Alberta, August 2, 2018** – Advantage Oil & Gas Ltd. (“Advantage” or the “Corporation”) successfully commissioned its major gas plant expansion project in the second quarter of 2018 at the Corporation’s 100% owned Glacier sour gas facility. This is a strategic milestone in the development of Advantage’s Montney resource as our expanded Glacier gas plant now contains significant spare capacity to accommodate future liquids-rich production growth from Glacier and our additional land blocks at Valhalla, Wembley/Pipestone and Progress. The expansion increased processing capacity of raw gas to 400 mmcf/d (second largest Alberta producer owned licensed sour gas plant) and shallow cut liquids extraction to 6,800 bbls/d, providing approximately 125 mmcf/d of current spare raw gas processing capacity. This spare capacity supports Advantage’s higher focus on increasing its liquid-rich production and also provides flexibility to readily increase natural gas production in response to price improvements.

In April 2018, Advantage provided updated guidance which included moderated natural gas production in response to low prices and confirmed plans to redirect more of its future capital investments into the Corporation’s significant and growing inventory of liquids-rich drilling opportunities.

During the second quarter of 2018, average production was 212.1 mmcfe/d (35,352 boe/d), including liquids production of 1,067 bbls/d (70% condensate), with total per unit cash costs of \$1.21/mcfe. Total cash costs are expected to return to approximately \$1.10/mcfe to \$1.20/mcfe, including operating costs of \$0.24/mcfe to \$0.28/mcfe, for the remainder of 2018 due to higher production rates. Capital expenditures during the quarter of \$25.8 million were largely funded from cash flow of \$23.2 million (\$0.12/share) despite a 58% decrease in the AECO daily natural gas price. The Corporation renewed its annual credit facility of \$400 million with improved borrowing terms and maintained a strong balance sheet with a total debt to trailing 12 month cash flow ratio of 1.7. Current production is approximately 270 mmcfe/d (45,000 boe/d) including liquids production of approximately 1,700 bbls/d.

Advantage’s increased focus on liquids-rich activities during the second half of 2018 includes commencing production from 5 standing liquids-rich Middle Montney wells and the commencement of a drilling program which includes 10 Middle Montney wells in east Glacier and an additional 5 liquids-rich wells at Valhalla. Construction plans were finalized for Advantage’s new Valhalla facility which includes a compressor station and liquids handling hub with project completion scheduled in the fourth quarter of 2018.

At our ultra-rich liquids asset at Wembley/Pipestone, we advanced work on selecting routes to extend Advantage’s current gathering pipeline system into this area and have secured a firm third party processing arrangement for up to 10 mmcf/d of capacity beginning in the latter half of 2019 for added flexibility and optionality. Our excitement continues to build in regard to the upside value of Advantage’s entire Wembley/Pipestone land block based on recently released industry well test information on each side of our asset.

The Corporation strengthened its commodity hedging position by monetizing certain in-the-money 2018 and 2019 NYMEX-AECO differential swaps and applying the proceeds towards the acquisition of 62 mmcf/d of AECO monthly settled puts at \$1.42 per mcf for June through September 2018 and 62 mmcf/d of enhanced AECO fixed price swaps at \$1.77 per mcf for the April 2019 to October 2019 period. The restructuring of these transactions provides Advantage with greater price and cash flow certainty during planned third party maintenance activities which have and are anticipated to create significant gas price volatility. For the second half of 2018 the Corporation has total fixed price hedges for 112 mmcf/d with 77 mmcf/d at an AECO average price of \$2.29 Cdn/mcf and 35 mmcf/d at a Dawn average price of \$2.85 US/mmbtu. In 2019, Advantage has 81 mmcf/d hedged with 75 mmcf/d at an AECO average price of \$2.26 Cdn/mcf and 6 mmcf/d at a Dawn average price of \$3.13 US/mmbtu. The Corporation’s AECO price exposure is estimated by Management to be approximately 25% of total revenue through to 2020 as a result of the Advantage’s revenue diversification program.

## **Operations Update**

### **Glacier**

Six Middle Montney and two Lower Montney wells located on an eight well pad in the western portion of Glacier were completed in the first quarter of 2018 and were designed to evaluate the impact of tighter frac spacing in an area where there are few Middle Montney wells.

The six Middle Montney wells on this pad contained an average frac count of 34 stages per well representing a 76% increase over our previous Middle Montney wells. Four of the six wells have been placed on production with flow duration ranging from 30 to 100 days. On average, the wells have flowed 62 days at an average restricted rate of 8.3 mmcf/d representing a 62% increase over our unrestricted type curve. Production rates remain restricted on all wells with a current average flowing wellhead pressure of 8,600 kPa

The two Lower Montney wells have been on restricted production for 17 days averaging 7.5 mmcf/d with current flowing pressures of 10,000 kPa which significantly exceeds the flowing pressure assumption in our average dry gas type curve.

We have spud the first well of a 10 well Middle Montney pad located in east Glacier where initial C3+ liquid yields have been approximately 50 to 80 bbls/mmcf (approximately 50% C5+) and the knowledge gained in recent well completions in the western portion of Glacier will be used to further enhance well performance.

### **Valhalla**

One of the standing Middle Montney wells was placed on production during the second quarter of 2018 and has produced under restricted flow at approximately 6 mmcf/d (20% above Advantage's Middle Montney average well type curve) at a flowing pressure of 6,900 kPa for 73 days. Well production from Valhalla will remain restricted until Advantage's new Valhalla facility, which includes 40 mmcf/d of compression and liquids handling equipment, is completed in the fourth quarter of 2018. This facility will increase the throughput capacity of our existing pipeline connecting Valhalla to Advantage's Glacier gas plant. Two standing Upper Montney wells will also be brought on-production after the Valhalla facility is completed.

Advantage will drill a new 5 well liquids-rich pad at Valhalla as part of our upcoming winter drilling program.

### **Wembley/Pipestone**

Construction work is scheduled to begin in August 2018 on the tie-in of Advantage's first delineation well at 12-25-72-8W6. This well will be tied-in to a third party producer facility on a 'best-efforts' processing basis as available capacity continues to be increasingly constrained due to industry successes in this prolific condensate/oil fairway.

We continue to advance work towards extending Advantage's current gathering pipelines into this area and have secured a firm third party processing arrangement beginning in the latter half of 2019 that can provide up to 10 mmcf/d of capacity for added optionality. Advantage's facility and pipeline construction is expected to occur during the first half of 2020; although, Advantage will be prepared to commence this work earlier if the timeline can be shortened.

Recently released industry wells which offset our Wembley/Pipestone land block demonstrate similar results to our 12-25 well which was production tested earlier this year at 1,312 boe/d with 819 bbls/d of liquids including 624 bbls/d of wellhead condensate/oil and 2.9 mmcf/d of gas.

### **Looking Forward**

Advantage continues to build operational flexibility with a significant Montney resource of low cost prolific natural gas and liquids including condensate and oil. This solid foundation which includes 200 net sections of Montney lands, 100% owned gas plant and an expanding pipeline infrastructure combined with an industry leading low cost structure is well positioned to create long term value. Advantage will continue to closely monitor market conditions and respond promptly and responsibly in order to optimize the allocation of our capital investments.

## 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, completion of expansion of the Corporation's Glacier gas plant, including the anticipated raw processing capacity and shallow cut propane plus liquids extraction capacity following such expansion; Advantage's expectation that the expansion of the Corporation's Glacier gas plant will support anticipated production growth; Advantage's focus on increasing liquids production; Advantage's ability to increase natural gas production in response to commodity price improvements; Advantage's drilling plans, including its plans to redirect more of its future capital investments into the liquids-rich drilling opportunities; the impact of third party processing on Advantage; the impact of third party maintenance activities of gas volatility; the Corporation's AECO price exposure; future well performance; the results of future operations, including the expected total production and liquids production; restrictions on well production at Valhalla; the timing of bringing certain Upper-Montney wells onto production; the anticipated timing of facility and pipeline construction, the tie-in of certain wells as well as Advantage's ability to begin construction earlier if necessary; Advantage's capital program for 2018, including the expected timing of incurring capital expenditures; the factors that Advantage believes will provide Advantage with the ability to respond promptly and responsibly to market conditions; and other matters. 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; impact of significant declines in market prices for oil and natural gas; 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; failure to achieve production targets on timelines anticipated or at all; 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; individual well productivity; lack of available capacity on pipelines; delays in anticipated timing of drilling and completion of wells; delays in completion of the expansion of the Glacier gas plant; delays in completion of the facility at Valhalla; delays in construction and completion of other infrastructure projects; that test results are not indicative of future production rates; lack of available capacity on pipelines; 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 dated March 5, 2018, which is available at [www.Sedar.com](http://www.Sedar.com) and [www.advantageog.com](http://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: timing of regulatory approvals; 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, cash costs and liquids transportation costs; frac stages per well; lateral lengths per well; well costs; expected annual production growth rates; 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; available pipeline capacity; that the Corporation will be able to complete the expansion and increase capacity at the Glacier gas plant; that Advantage's production will increase; current or, where applicable, proposed assumed industry conditions, laws and regulations will continue in effect or as anticipated; and that 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. Production estimates contained herein are expressed as anticipated average production over the calendar year. In determining anticipated production for the year ended December 31, 2018 Advantage considered historical drilling, completion and production results for prior years and took into account the estimated impact on production of the Corporation's 2018 expected drilling and completion activities.*

*Management has included the above summary of assumptions and risks related to forward-looking information 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.

This report contains a number of oil and gas metrics, including operating netbacks, which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional measures to evaluate the Corporation's performance; however, such measures are not reliable indicators of the future performance of the Corporation and future performance may not compare to the performance in previous periods and therefore such metrics should not be unduly relied upon. Management uses these oil and gas metrics for its own performance measurements and to provide securityholders with measures to compare Advantage's operations over time. Readers are cautioned that the information provided by these metrics, or that can be derived from the metrics presented in this news release, should not be relied upon for investment or other purposes.

References in this report to flow 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 of Advantage.

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.

#### **Non-GAAP Measures**

The Corporation discloses several financial measures that do not have any standardized meaning prescribed under International Financial Reporting Standards ("IFRS"). These financial measures include funds from operations, operating netbacks, cash netbacks, cash costs and total debt to annualized cash flow ratio. 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. Operating netback is calculated by adding natural gas and liquids sales with realized gains and losses on derivatives and subtracting royalty expense, operating expense and transportation expense. Cash netbacks are dependent on the determination of funds from operations and include the primary cash sales and expenses on a per mcf basis that comprise funds from operations. Total debt to cash flow ratio is calculated as indebtedness under the Corporation's credit facilities plus working capital deficit divided by funds from operations for the prior twelve month period.

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](http://www.sedar.com) and [www.advantageog.com](http://www.advantageog.com) for additional information about these financial measures, including a reconciliation of funds from operations to cash provided by operating activities.

## CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of August 2, 2018, 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, 2018 and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2018 and the audited consolidated financial statements for the year ended December 31, 2017 (together, the "consolidated financial statements"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), representing generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. All references in the MD&A and consolidated financial statements are to Canadian dollars unless otherwise indicated.

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

Financial and Operating Highlights	Three months ended		Six months ended	
	June 30		June 30	
	2018	2017	2018	2017
<b>Financial (\$000, except as otherwise indicated)</b>				
Sales including realized hedging <sup>(3)</sup>	\$ 45,319	\$ 69,169	\$ 118,697	\$ 142,126
Net income (loss) and comprehensive income (loss)	\$ (15,294)	\$ 18,339	\$ (5,191)	\$ 60,588
per basic share <sup>(2)</sup>	\$ (0.08)	\$ 0.10	\$ (0.03)	\$ 0.33
Funds from operations <sup>(1)</sup>	\$ 23,160	\$ 48,625	\$ 72,042	\$ 102,597
per basic share <sup>(2)</sup>	\$ 0.12	\$ 0.26	\$ 0.39	\$ 0.55
Net capital expenditures <sup>(1)</sup>	\$ 25,761	\$ 31,462	\$ 103,397	\$ 85,253
Working capital deficit	\$ 3,206	\$ 6,950	\$ 3,206	\$ 6,950
Bank indebtedness	\$ 250,189	\$ 134,128	\$ 250,189	\$ 134,128
Basic weighted average shares (000)	186,190	185,790	186,077	185,319
<b>Operating</b>				
Daily Production				
Natural gas (mcf/d)	205,712	225,844	219,009	228,363
Liquids (bbls/d)	1,067	1,098	1,086	1,124
Total mcfe/d	212,114	232,432	225,525	235,107
Total boe/d	35,352	38,739	37,588	39,185
Average prices (including hedging)				
Natural gas (\$/mcf) <sup>(3)</sup>	\$ 2.05	\$ 3.09	\$ 2.65	\$ 3.17
Liquids (\$/bbl)	\$ 72.32	\$ 57.27	\$ 69.17	\$ 55.47
<b>Cash netbacks (\$/mcfe) <sup>(1)</sup></b>				
Sales of natural gas and liquids from production	\$ 1.94	\$ 3.16	\$ 2.34	\$ 3.17
Net sales of natural gas purchased from third parties <sup>(1)</sup>	0.06	-	0.03	-
Realized gains on derivatives	0.41	0.11	0.57	0.17
Royalty recovery (expense)	0.06	(0.15)	-	(0.13)
Operating expense	(0.34)	(0.27)	(0.33)	(0.25)
Transportation expense	(0.63)	(0.37)	(0.60)	(0.37)
Operating netback <sup>(1)</sup>	1.50	2.48	2.01	2.59
General and administrative	(0.13)	(0.12)	(0.10)	(0.11)
Finance expense	(0.14)	(0.07)	(0.12)	(0.08)
Settlement of Performance Awards	(0.03)	-	(0.01)	-
Other income	-	0.01	-	-
Cash netbacks <sup>(1)</sup>	\$ 1.20	\$ 2.30	\$ 1.78	\$ 2.40

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

<sup>(2)</sup> Based on basic weighted average shares outstanding.

<sup>(3)</sup> Excludes net sales of natural gas purchased from third parties.

## Natural Gas and Liquids Sales

(\$000)	Three months ended			Six months ended		
	June 30			June 30		
	2018	2017	% change	2018	2017	% change
Natural gas sales	\$ 30,464	\$ 61,219	(50) %	\$ 81,945	\$ 123,416	(34) %
Realized gains on derivatives	7,833	2,227	252 %	23,155	7,421	212 %
Natural gas sales including derivatives	38,297	63,446	(40) %	105,100	130,837	(20) %
Liquids sales	7,022	5,723	23 %	13,597	11,289	20 %
<b>Total <sup>(1)</sup></b>	<b>\$ 45,319</b>	<b>\$ 69,169</b>	<b>(34) %</b>	<b>\$ 118,697</b>	<b>\$ 142,126</b>	<b>(16) %</b>

<sup>(1)</sup> Total excludes unrealized gains and losses on derivatives.

For the three months ended June 30, 2018, Advantage realized total sales including realized derivative gains of \$45.3 million, lower by \$23.9 million or 34% as compared to the same period of 2017. Total sales including realized derivative gains for the six months ended June 30, 2018 were \$118.7 million, a decrease of \$23.4 million or 16% as compared to the six months ended June 30, 2017. These reductions were primarily due to AECO natural gas prices which decreased in excess of 50%, combined with slightly lower production resulting from the planned shutdown of our Glacier gas plant from late March to mid-April to accommodate our major expansion project (see "Production"). Liquids sales has increased in 2018 due to the general strengthening of Canadian natural gas liquids prices.

Compared to the same periods of 2017, realized gains on derivatives increased by \$5.6 million and \$15.7 million during the three and six months ended June 30, 2018, respectively, due to Advantage's proactive management of commodity price risk. Realized gains on derivatives were the result of differences in natural gas prices and contracts outstanding during the three and six months ended June 30, 2018 and 2017 (see "Commodity Price Risk Management and Market Diversification").

## Production

	Three months ended			Six months ended		
	June 30			June 30		
	2018	2017	% change	2018	2017	% change
Natural gas (mcf/d)	205,712	225,844	(9) %	219,009	228,363	(4) %
Liquids (bbls/d)	1,067	1,098	(3) %	1,086	1,124	(3) %
<b>Total - mcf/d</b>	<b>212,114</b>	<b>232,432</b>	<b>(9) %</b>	<b>225,525</b>	<b>235,107</b>	<b>(4) %</b>
<b>- boe/d</b>	<b>35,352</b>	<b>38,739</b>	<b>(9) %</b>	<b>37,588</b>	<b>39,185</b>	<b>(4) %</b>
Natural gas (%)	97%	97%		97%	97%	
Liquids (%)	3%	3%		3%	3%	

Total production for the three and six months ended June 30, 2018 was slightly lower than the comparative 2017 periods as the first half of 2018 was impacted by the planned shut-down of our Glacier gas plant commencing in the last week of March 2018. The shut-down was planned to begin the tie-in of new equipment as part of our Glacier gas plant expansion project to 400 mmcf/d processing capacity. During plant start-up operations in the second quarter after the outage, we experienced an upset in our gas dehydration process that has been fully resolved but required a longer outage than originally scheduled, with the plant resuming operations during mid-April 2018.

With our increased focus on liquids-rich development and in response to periods of low natural gas prices and netbacks in 2018, Advantage prudently decided to moderate the ramp up of gas production after the outage and may restrict natural gas production levels from time-to-time. Annual average production for 2018 is expected to be between 240 and 255 mmcf/d, with annual average liquids production expected to grow by approximately 50% year-on-year to 1,800 bbls/d. Increased drilling on our liquids-rich lands will support doubling Advantage's liquids production to 8% or more of total production during the latter part of 2019 and potentially reach 13% or more in 2020.

## Commodity Prices and Marketing

	Three months ended			Six months ended		
	June 30			June 30		
	2018	2017	% change	2018	2017	% change
<b>Average Realized Prices</b>						
Natural gas, excluding hedging (\$/mcf) <sup>(1)</sup>	\$ 1.63	\$ 2.98	(45) %	\$ 2.07	\$ 2.99	(31) %
Natural gas, including hedging (\$/mcf) <sup>(1)</sup>	\$ 2.05	\$ 3.09	(34) %	\$ 2.65	\$ 3.17	(16) %
Liquids, excluding and including hedging (\$/bbl)	\$ 72.32	\$ 57.27	26 %	\$ 69.17	\$ 55.47	25 %
<b>Benchmark Prices</b>						
AECO daily (\$/mcf)	\$ 1.18	\$ 2.79	(58) %	\$ 1.63	\$ 2.74	(41) %
AECO monthly (\$/mcf)	\$ 1.03	\$ 2.77	(63) %	\$ 1.44	\$ 2.86	(50) %
Dawn daily (\$US/mmBtu)	\$ 2.77	\$ 3.15	(12) %	\$ 2.90	\$ 3.33	(13) %
Henry Hub (\$US/mmBtu)	\$ 2.82	\$ 3.07	(8) %	\$ 2.91	\$ 3.04	(4) %
Edmonton Light (\$/bbl)	\$ 78.91	\$ 60.38	31 %	\$ 75.60	\$ 62.56	21 %
Exchange rate (US\$/CDN\$1.00)	0.7747	0.7438	4 %	0.7827	0.7499	4 %

<sup>(1)</sup> Excludes net sales of natural gas purchased from third parties.

Realized natural gas prices, excluding hedging, for the three and six months ended June 30, 2018 were lower than 2017 due to significantly weaker AECO prices and were partially offset by sales of 52,700 mcf/d into the Dawn market in Southern Ontario, which realized higher prices net of transportation costs. During various periods in the second quarter of 2018, TransCanada Pipeline's ("TCPL") summer maintenance and expansion activities on the NOVA Gas Transmission Ltd. ("NGTL") system restricted delivery service subsequently impacting storage injections, contributing to significant pressure on AECO prices. Reduced maintenance activity and restrictions in the third quarter, combined with below average Alberta natural gas storage levels due to lower year-to-date injections, may position the industry for stronger relative natural gas prices this winter. Advantage's commitment to firm transportation service to Dawn began November 1, 2017 and represents approximately 20% of our natural gas production. The Dawn market provides Advantage with additional physical market diversification from AECO with a corresponding increase in transportation expense to access this market. To date, Advantage has received higher prices at Dawn net of transportation costs compared to AECO.

Realized liquids prices were higher for the three and six months ended June 30, 2018 as compared to the same periods of 2017 due to the general strengthening of Canadian natural gas liquids prices. Advantage's current liquids mix is comprised of 72% pentanes and condensate, which have historically attracted higher market prices than other natural gas liquids.



## Commodity Price Risk Management and Market Diversification

The Corporation's financial results and condition are impacted primarily by the prices received for natural gas and liquids production. Natural gas 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 derivative contracts for the purposes of reducing cash flow volatility and diversifying price realizations to multiple markets in support of our Montney development plans. Advantage's Credit Facilities allow us to enter fixed price derivative contracts up to 75% of total estimated natural gas and liquids production over the first three years and up to 50% over the fourth and fifth years. In addition, the Credit Facilities allow us to enter into basis swap arrangements to any natural gas price point in North America for up to 100,000 MMBtu/day with a maximum term of seven years. Basis swap arrangements do not count against the limitations on hedged production.

Our natural gas production and corresponding derivative contracts are expected to result in the realization of the following fixed market prices and variable market exposures for 2018:

	January 1 to December 31, 2018		
	Volumes Contracted (mmcf/d)	Average Minimum Price	% of Estimated Production
<b>Fixed Price</b>			
AECO fixed price swaps	61.1	\$2.99/mcf	26%
AECO put option bought	20.6	\$1.42/mcf	9%
Dawn fixed price swaps	30.0	US\$2.86/mcf	13%
	111.7		48%
<b>Variable Price</b>			
AECO physical	88.9	AECO	38%
Dawn physical	22.7	Dawn	9%
Chicago physical	3.3	Chicago less US\$1.19/mcf	1%
AECO / Henry Hub basis swaps	10.4	Henry Hub less US\$0.95/mcf	4%
	125.3		52%
<b>Total Natural Gas <sup>(2)</sup></b>	<b>237.0</b>		<b>100%</b>

(1) All volumes contracted converted to mcf on the basis of 1 mcf = 1.055056 GJ and 1 mcf = 1 mmbtu

(2) Represents the midpoint of our Guidance for 2018 natural gas volumes (see News Release dated April 19, 2018)

A summary of realized and unrealized gains and losses on derivatives for the three and six months ended June 30, 2018 and 2017 are as follows:

(\$000s)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Realized gains on derivatives	\$ 7,833	\$ 2,227	\$ 23,155	\$ 7,421
Unrealized gains (losses) on derivatives	(17,408)	7,511	(23,133)	43,390
<b>Gains (losses) on derivatives</b>	<b>\$ (9,575)</b>	<b>\$ 9,738</b>	<b>\$ 22</b>	<b>\$ 50,811</b>

For the three and six months ended June 30, 2018 and 2017, Advantage recognized realized gains on derivatives due to the settlement of contracts with average derivative contract prices that were above average market prices during the periods. For the three and six months ended June 30, 2018, Advantage recognized unrealized losses on derivatives resulting from a decrease in the fair value of our derivative contracts to a net asset of \$27.6 million at June 30, 2018, as compared to a net asset of \$50.8 million at December 31, 2017. The decreases in the fair value of our outstanding derivative contracts was primarily attributable to actual cash received from derivative settlements and changes in commodity price assumptions during the periods. The fair value of the net derivative asset or liability is the estimated value to settle the outstanding contracts as at a point in time. As such, unrealized derivative gains and losses do not impact funds from operations and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions. Remaining derivative contracts will settle between July 1, 2018 and December 31, 2024.

## Sales of Natural Gas Purchased from Third Parties

(\$000s)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Sales of natural gas purchased from third parties	\$ 5,078	\$ -	\$ 5,078	\$ -
Natural gas purchased from third parties	(3,967)	-	(3,967)	-
<b>Net sales of natural gas purchased from third parties</b>	<b>\$ 1,111</b>	<b>\$ -</b>	<b>\$ 1,111</b>	<b>\$ -</b>

Due to a scheduled plant expansion shutdown during the second quarter of 2018 (see “Production”), the Corporation purchased natural gas volumes from third parties to satisfy physical delivery commitments. During the three and six months ended June 30, 2018, Advantage realized \$5.1 million of revenue from the sale of purchased natural gas while the natural gas volumes were purchased for a total of \$4.0 million. No natural gas volumes were purchased during the three and six months ended June 30, 2017.

## Royalty Expense

	Three months ended June 30			Six months ended June 30		
	2018	2017	% change	2018	2017	% change
Royalty expense (recovery) (\$000)	\$ (1,070)	\$ 3,192	(134) %	\$ 142	\$ 5,332	(97) %
per mcfe	\$ (0.06)	\$ 0.15	(140) %	\$ -	\$ 0.13	(100) %
Royalty Rate (percentage of sales of natural gas and liquids from production)	(2.9) %	4.8 %	(7.7) %	- %	4.0 %	(4.0) %

Advantage pays royalties to the owners of mineral rights from which we have leases. The Corporation has mineral leases with provincial governments, individuals and other companies. Our current average royalty rates are determined by various royalty regimes that incorporate factors including well depths, well production rates, and commodity prices. Royalties also include the impact of gas cost allowance (“GCA”) which is a reduction of royalties payable to the Alberta Provincial Government (the “Crown”) to recognize capital and operating expenditures incurred by Advantage in the gathering and processing of the Crown’s share of our natural gas production. Royalty expense (recovery) for the three and six months ended June 30, 2018 were impacted by a \$1.1 million credit due to GCA adjustments as well as lower realized natural gas prices and revenue. We anticipate a 2018 average royalty rate between 2% and 4%, including the GCA adjustments.

## Operating Expense

	Three months ended June 30			Six months ended June 30		
	2018	2017	% change	2018	2017	% change
Operating expense (\$000)	\$ 6,616	\$ 5,618	18 %	\$ 13,576	\$ 10,479	30 %
per mcfe	\$ 0.34	\$ 0.27	26 %	\$ 0.33	\$ 0.25	32 %

Operating expense per mcfe for the three and six months ended June 30, 2018 increased by 26% to \$0.34/mcfe and by 32% to \$0.33/mcfe compared to the respective periods of 2017. Higher operating expense per mcfe was primarily due to lower production associated with the planned shut-down of our Glacier gas plant as part of our expansion project that began during the last week of March 2018 and ended during mid-April, as well as costs associated with annual compressor and equipment maintenance activities that were scheduled during this outage (see “Production”). With the completion of the Glacier gas plant outage in the second quarter to tie-in and commission new equipment related to the expansion, we anticipate average operating costs in the second half of 2018 will be lower due to higher production levels with annual 2018 operating costs estimated between \$0.28 and \$0.33/mcfe.

## Transportation Expense

	Three months ended			Six months ended		
	June 30			June 30		
	2018	2017	% change	2018	2017	% change
Transportation expense						
Natural gas (\$000)	\$ 11,203	\$ 6,716	67 %	\$ 22,611	\$ 14,130	60 %
per mcf	\$ 0.60	\$ 0.33	82 %	\$ 0.57	\$ 0.34	68 %
Liquids (\$000)	\$ 866	\$ 1,082	(20) %	\$ 1,785	\$ 1,787	- %
per bbl	\$ 8.92	\$ 10.83	(18) %	\$ 9.08	\$ 8.78	3 %
Total transportation expense (\$000)	\$ 12,069	\$ 7,798	55 %	\$ 24,396	\$ 15,917	53 %
per mcfe	\$ 0.63	\$ 0.37	70 %	\$ 0.60	\$ 0.37	62 %

Transportation expense represents the cost of transporting our natural gas and liquids to the sales points, including associated fuel costs. Natural gas transportation expense for the three and six months ended June 30, 2018 increased as expected due to Advantage's participation in TCPL's long-term, fixed price service open season from Empress, Alberta to the Dawn market, which commenced November 1, 2017. Transportation under our firm commitment from AECO to Dawn is approximately \$1.10/mcf. Our natural gas transportation arrangements are firm commitments and transportation expense was not significantly impacted by decreased production associated with the Glacier gas plant outages from the last week of March to mid-April 2018 (see "Production").

Liquids transportation expense for the three and six months ended June 30, 2018 were comparable to the same periods of 2017.

We anticipate average transportation expense for 2018 to be between \$0.55 and \$0.62/mcfe.

## General and Administrative Expense

	Three months ended			Six months ended		
	June 30			June 30		
	2018	2017	% change	2018	2017	% change
General and administrative expense	\$ 2,477	\$ 2,478	- %	\$ 4,223	\$ 4,553	(7) %
per mcfe	\$ 0.13	\$ 0.12	8 %	\$ 0.10	\$ 0.11	(9) %
Employees at June 30				29	29	- %

General and administrative expense for the three and six months ended June 30, 2018 remained consistent with the comparative periods of 2017.

## Share Based Compensation

	Three months ended			Six months ended		
	June 30			June 30		
	2018	2017	% change	2018	2017	% change
Share based compensation						
Stock Options	\$ 5	\$ 33	(85) %	\$ 36	\$ 152	(76) %
Performance Awards	\$ 1,451	\$ 933	56 %	\$ 2,164	\$ 2,216	(2) %
Total share based compensation	\$ 1,456	\$ 966	51 %	\$ 2,200	\$ 2,368	(7) %
per mcfe	\$ 0.08	\$ 0.05	60 %	\$ 0.05	\$ 0.06	(17) %

Share based compensation represents expense associated with Advantage's stock option plan and restricted and performance incentive plan that are designed to provide for long-term compensation to employees and contractors and to align the interests of these individuals with those of shareholders. Share based compensation for the three months ended June 30, 2018 increased by \$0.5 million as compared to the same period of 2017, primarily due to annual Performance Awards granted during the second quarter of 2018 and revaluation of Payout Multipliers associated with outstanding Performance Awards that can result in expense variability. During April 2018, 136,631 Performance Awards matured and were settled with the issuance of 239,791 common shares, while 112,057 Performance Awards matured and were net settled for \$0.5 million of cash consideration. As at June 30, 2018, a total of 2.0 million Stock Options and 2.8 million Performance Awards are unexercised which represents 2.6% of Advantage's total outstanding common shares.

## Finance Expense

	Three months ended			Six months ended		
	June 30			June 30		
	2018	2017	% change	2018	2017	% change
Finance expense						
Cash expense (\$000)	\$ 2,672	\$ 1,575	70 %	\$ 4,923	\$ 3,365	46 %
per mcfe	\$ 0.14	\$ 0.07	100 %	\$ 0.12	\$ 0.08	50 %
Accretion expense (\$000)	\$ 247	\$ 216	14 %	\$ 511	\$ 450	14 %
per mcfe	\$ 0.01	\$ 0.01	- %	\$ 0.01	\$ 0.01	- %
<b>Total finance expense (\$000)</b>	<b>\$ 2,919</b>	<b>\$ 1,791</b>	<b>63 %</b>	<b>\$ 5,434</b>	<b>\$ 3,815</b>	<b>42 %</b>
<b>per mcfe</b>	<b>\$ 0.15</b>	<b>\$ 0.08</b>	<b>88 %</b>	<b>\$ 0.13</b>	<b>\$ 0.09</b>	<b>44 %</b>

Advantage realized higher cash finance expense during the three and six months ended June 30, 2018 compared to the same periods of 2017 primarily due to higher average outstanding bank indebtedness during the periods. Bank debt was higher during the first half of 2018 due to the timing of the 2018 capital expenditure program, including costs related to the completion of the Glacier gas plant expansion. Advantage's interest rates are primarily based on short-term bankers' acceptance rates plus a stamping fee and determined by total debt to the trailing four quarters Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio as calculated pursuant to our Credit Facilities. During 2018, we expect higher cash finance expense resulting from the higher average bank indebtedness and interest rates as determined by our total debt to EBITDA ratio.

## Funds from Operations and Cash Netbacks

	Three months ended				Six months ended			
	June 30				June 30			
	2018		2017		2018		2017	
	\$000	per mcfe	\$000	per mcfe	\$000	per mcfe	\$000	per mcfe
Sales of natural gas and liquids from production	\$ 37,486	\$ 1.94	\$ 66,942	\$ 3.16	\$ 95,542	\$ 2.34	\$ 134,705	\$ 3.17
Net sales of natural gas purchased from third parties <sup>(1)</sup>	1,111	0.06	-	-	1,111	0.03	-	-
Realized gains on derivatives	7,833	0.41	2,227	0.11	23,155	0.57	7,421	0.17
Royalty recovery (expense)	1,070	0.06	(3,192)	(0.15)	(142)	-	(5,332)	(0.13)
Operating expense	(6,616)	(0.34)	(5,618)	(0.27)	(13,576)	(0.33)	(10,479)	(0.25)
Transportation expense	(12,069)	(0.63)	(7,798)	(0.37)	(24,396)	(0.60)	(15,917)	(0.37)
<b>Operating income and operating netbacks <sup>(1)</sup></b>	<b>28,815</b>	<b>1.50</b>	<b>52,561</b>	<b>2.48</b>	<b>81,694</b>	<b>2.01</b>	<b>110,398</b>	<b>2.59</b>
General and administrative expense	(2,477)	(0.13)	(2,478)	(0.12)	(4,223)	(0.10)	(4,553)	(0.11)
Settlement of Performance Awards <sup>(2)</sup>	(506)	(0.03)	-	-	(506)	(0.01)	-	-
Finance expense <sup>(3)</sup>	(2,672)	(0.14)	(1,575)	(0.07)	(4,923)	(0.12)	(3,365)	(0.08)
Other income <sup>(4)</sup>	-	-	117	0.01	-	-	117	-
<b>Funds from operations and cash netbacks <sup>(1)</sup></b>	<b>\$ 23,160</b>	<b>\$ 1.20</b>	<b>\$ 48,625</b>	<b>\$ 2.30</b>	<b>\$ 72,042</b>	<b>\$ 1.78</b>	<b>\$ 102,597</b>	<b>\$ 2.40</b>
<b>Per basic weighted average share <sup>(1)</sup></b>	<b>\$ 0.12</b>		<b>\$ 0.26</b>		<b>\$ 0.39</b>		<b>\$ 0.55</b>	

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

(2) Cash paid to settle Performance Awards during the period.

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

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

For the three months ended June 30, 2018, Advantage realized funds from operations of \$23.2 million, cash netbacks of \$1.20/mcfe and funds from operations per share of \$0.12. For the six months ended June 30, 2018, Advantage realized funds from operations of \$72.0 million, cash netbacks of \$1.78/mcfe and funds from operations per share of \$0.39. Reduced funds from operations as compared to 2017 were primarily the result of lower natural gas sales resulting from significantly weaker AECO natural gas prices which decreased in excess of 50%, combined with slightly lower production resulting from the planned shutdown of our Glacier gas plant from late March to mid-April to accommodate our major expansion project (see "Production"). The lower natural gas prices were partially offset by additional realized gains on derivatives due to Advantage's proactive management of commodity price risk. Higher transportation expense during the first half of 2018 was primarily due to Advantage's participation in TCPL's long-term, fixed price service open season from Empress, Alberta to the Dawn market in Southern Ontario, which commenced November 1, 2017 (see "Transportation Expense"). Total corporate cash costs (royalty expense, operating expense, transportation expense, G&A expense, share based

compensation and finance expense) on a per mcfe basis for the three and six months ended June 30, 2018 were generally impacted by the lower production associated with the planned shut-down of our Glacier gas plant as part of our expansion project (see “Production”). Total corporate cash costs are expected to decrease as production increases during the second half of 2018, with annual 2018 total corporate cash costs estimated at \$1.10 to \$1.30/mcfe.

### Depreciation Expense

	Three months ended			Six months ended		
	June 30			June 30		
	2018	2017	% change	2018	2017	% change
Depreciation expense (\$000)	\$ 25,153	\$ 29,475	(15) %	\$ 53,186	\$ 59,295	(10) %
per mcfe	\$ 1.30	\$ 1.39	(6) %	\$ 1.30	\$ 1.39	(6) %

Depreciation of natural gas and liquids properties is provided on the units-of-production method based on total proved and probable reserves, including future development costs, on a component basis. Depreciation expense for 2018 has decreased as compared to 2017 due to the slightly lower production resulting from the planned shutdown of our Glacier gas plant from late March to mid-April to accommodate our major expansion project (see “Production”) and a reduced rate of depreciation expense. The rate of depreciation expense per mcfe decreased during the three and six months ended June 30, 2018 due to the continued efficiency of our reserve additions.

### Taxes

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the three and six months ended June 30, 2018, the Corporation recognized a deferred income tax recovery of \$5.3 million and \$1.3 million as a result of a \$20.6 million and \$6.5 million loss before taxes, respectively. As at June 30, 2018, the Corporation had a deferred income tax liability of \$71.2 million.

### Net Income (Loss) and Comprehensive Income (Loss)

	Three months ended			Six months ended		
	June 30			June 30		
	2018	2017	% change	2018	2017	% change
Net income (loss) and comprehensive income (loss) (\$000)	\$ (15,294)	\$ 18,339	(183) %	\$ (5,191)	\$ 60,588	(109) %
per share - basic	\$ (0.08)	\$ 0.10	(180) %	\$ (0.03)	\$ 0.33	(109) %
per share - diluted	\$ (0.08)	\$ 0.10	(180) %	\$ (0.03)	\$ 0.32	(109) %

Advantage recognized net losses of \$15.3 million and \$5.2 million for the three and six months ended June 30, 2018, respectively. The losses incurred in the 2018 periods compared to income generated in the same periods of 2017 were partially due to lower funds from operations resulting from significantly weaker natural gas prices and slightly reduced production due to the Glacier gas plant shutdowns (see “Production”). The most significant driver of the net losses incurred in the three and six months ended June 30, 2018 were \$17.4 million and \$23.1 million recognized as unrealized losses on derivatives, as compared to unrealized gains on derivatives of \$7.5 million and \$43.4 million realized in the respective periods of 2017. Unrealized gains and losses on derivatives are non-cash and can fluctuate greatly between periods from changes to the estimated value to settle outstanding contracts (see “Commodity Price Risk Management and Market Diversification”).

## 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	2018	2019	2020	2021	2022	After 2022
Building leases	\$ 1.3	\$ 0.6	\$ 0.7	\$ -	\$ -	\$ -	\$ -
Transportation	373.1	23.1	48.8	47.5	46.2	45.0	162.5
Bank indebtedness <sup>(1)</sup>							
- principal	253.0	-	-	253.0	-	-	-
- interest	20.8	5.3	10.5	5.0	-	-	-
<b>Total contractual obligations</b>	<b>\$ 648.2</b>	<b>\$ 29.0</b>	<b>\$ 60.0</b>	<b>\$ 305.5</b>	<b>\$ 46.2</b>	<b>\$ 45.0</b>	<b>\$ 162.5</b>

(1) As at June 30, 2018, 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 2019. 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, 2018
Bank indebtedness (non-current)	\$ 250,189
Working capital deficit	3,206
<b>Total debt<sup>(1)</sup></b>	<b>\$ 253,395</b>
Shares outstanding	186,198,528
Shares closing market price (\$/share)	\$ 4.11
<b>Market capitalization</b>	<b>\$ 765,276</b>
<b>Total capitalization</b>	<b>\$ 1,018,671</b>
<b>Total debt to funds from operations<sup>(2)</sup></b>	<b>1.7</b>

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

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

Advantage has a \$400 million credit facility of which \$143 million or 36% was available at June 30, 2018 after deducting letters of credit of US\$5 million outstanding (see "Bank Indebtedness, Credit Facilities and Other Obligations"). The Corporation's funds from operations was partially supplemented by working capital and bank indebtedness to fund our capital expenditure program of \$103.4 million for the first half of 2018. Due to the timing of the 2018 capital expenditure program that was weighted to the first half of 2018 and lower funds from operations resulting from weaker natural gas prices, total debt to twelve-month trailing funds from operations increased to 1.7 times as at June 30, 2018. Advantage continues to retain a strong balance sheet, a disciplined commodity risk management program, an industry leading low-cost structure, and substantial available liquidity such that it is well positioned to continue successfully executing our multi-year development plan.

Advantage monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Corporation is composed of working capital, bank indebtedness, 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.

## Shareholders' Equity

As at June 30, 2018, a total of 2.0 million Stock Options and 2.8 million Performance Awards were outstanding, which represents 2.6% of Advantage's total common shares outstanding. No Stock Options were exercised during the six months ended June 30, 2018. In April 2018, 136,631 Performance Awards matured and were settled with the issuance of 239,791 common shares while 112,057 Performance Awards matured and were net settled for \$0.5 million of cash consideration. As at August 2, 2018, Advantage had 186.2 million common shares outstanding.

## Bank Indebtedness, Credit Facilities and Other Obligations

At June 30, 2018, Advantage had bank indebtedness outstanding of \$250.2 million, an increase of \$41.2 million since December 31, 2017. The planned increase in bank indebtedness was consistent with the timing and execution of Advantage's capital expenditure program. Advantage's credit facilities have a borrowing base of \$400 million that is collateralized by a \$1 billion floating charge demand debenture covering all assets of the Corporation and has no financial covenants (the "Credit Facilities"). The borrowing base for the Credit Facilities is determined by the banking syndicate through an evaluation of our reserve estimates based upon their own commodity price assumptions. Revisions or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing base. In April 2018, the semi-annual redetermination of the Credit Facilities borrowing base was completed, with no changes to the borrowing base of \$400 million, comprised of a \$20 million extendible revolving operating loan facility from one financial institution and a \$380 million extendible revolving loan facility from a syndicate of financial institutions. The next annual review is scheduled to occur in June 2019. There can be no assurance that the Credit Facilities will be renewed at the current borrowing base level at that time.

Advantage's working capital deficit of \$3.2 million as at June 30, 2018 was lower than the working capital deficit at December 31, 2017 due to differences in the timing of capital expenditures and related payments. Our working capital includes items expected for normal operations such as cash and cash equivalents, trade receivables, prepaid expenses, 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 capital development activities. We do not anticipate any problems in 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	
	2018	2017	2018	2017
Drilling, completions and workovers	\$ 2,996	\$ 3,973	\$ 37,493	\$ 37,774
Well equipping and facilities	22,731	23,449	65,367	40,894
Other	-	123	-	123
Expenditures on property, plant and equipment	25,727	27,545	102,860	78,791
Expenditures on exploration and evaluation assets	34	3,917	537	6,462
<b>Net capital expenditures<sup>(1)</sup></b>	<b>\$ 25,761</b>	<b>\$ 31,462</b>	<b>\$ 103,397</b>	<b>\$ 85,253</b>

<sup>(1)</sup> Net capital expenditures excludes change in decommissioning liability.

Advantage invested \$25.8 million and \$103.4 million on property, plant, equipment and land purchases during the three and six months ended June 30, 2018, respectively.

During the three months ended June 30, 2018, 88% of expenditures were related to infrastructure projects including finishing construction and commissioning of the expansion of our 100% owned Glacier gas plant from 250 to 400 mmcf/d raw gas capability including 6,800 bbls/d of liquids. The expanded facility is now fully commissioned and provides excess capacity over the next number of years for our drilling program or third party processing. Advantage's strategy of owning and operating our own infrastructure has helped us achieve an industry leading low cost structure.

During the second quarter of 2018, Advantage did not conduct any significant drilling or completion operations. Our program is planned to resume during the third quarter of 2018, focusing on liquid-rich Montney opportunities across our acreage position.

## Glacier

During the first quarter of 2018, Advantage completed an eight well pad with six of the wells being in the liquids-rich Middle Montney. The six Middle Montney wells further delineated all three layers within the Middle Montney and demonstrated a total combined production rate of 64 mmcf/d with an average rate of 10.6 mmcf/d per well at an average flowing pressure of 15,444 kPa at the end of 48 hours of flow. This represents an increase in the average per well test rate and average flowing pressure of 86% and 126%, respectively, compared to all of our previously drilled Glacier Middle Montney wells. Based on measured gas compositions from the six wells during testing, the average liquids yield was 30 bbls/mmcf consistent with the previous results in this area of Glacier. Average frac count was increased to 34 stages per well which represents a 76% increase over our previous Middle Montney wells.

The two Lower Montney wells were flowed at an average rate of 12.9 mmcf/d per well at an average flowing pressure of 11,678 kPa at the end of 37 hours of flow. These results are consistent with the exceptional Lower Montney results that have been achieved in the western portion of Glacier over the past number of drilling programs.

Our upcoming Montney horizontal drilling program at Glacier will begin in August with the drilling of a 10 well Middle Montney pad located on the eastern side of Glacier where we have seen liquid yields as high as 80 bbls/mmcf.

## Wembley

During the first quarter of 2018, Advantage's first delineation well concluded testing operations. At the conclusion of our production test period, our well demonstrated an average flow rate of 1,312 boe/d consisting of 2.9 mmcf/d of gas and 819 bbls/d of hydrocarbon liquids. The wellhead condensate/oil rate was 624 bbls/d with an additional 195 bbls/d of C3+ liquids based on a shallow cut extraction process. Near term processing capacity is limited in the immediate area; however, longer term options for tie-in of the well and future wells for permanent production include connecting back to our Glacier gas plant, accessing third party processing or a combination of both is being developed. Advantage is in the process of working through stakeholder consultations in anticipation of securing regulatory approvals targeted for 2019 with production targeted for later in 2019 and 2020.

Industry drilling adjacent to our lands have targeted multiple Montney layers with results demonstrating liquids-rich gas accumulations in all layers to date.

## Valhalla

Installation of Advantage's first compressor and liquids handling facility at Valhalla is continuing on track. This facility is designed to handle 40 mmcf/d of raw gas and 2,000 bbls/d of liquids and is expandable to accommodate future liquids rich production growth at Valhalla. Engineering design has been completed with the majority of major equipment items being sourced from surplus equipment resulting from the Glacier gas plant expansion project. Construction is planned during the second half of 2018 with the facility scheduled to be brought-on stream in the fourth quarter of 2018.

## Corporate

Advantage's current standing well inventory consists of sixteen total wells. Six are completed & tested and ten are cased waiting to be completed.

During the first six months of 2018, Advantage acquired 11 additional sections of Doig/Montney rights proximal to our existing land holdings. We now hold a total of 200 net sections (128,000 net acres) of Doig/Montney rights with 110 of those net sections outside of Glacier in the Valhalla/Progress/Wembley areas that have potential for liquids-rich and multi-layer development.



## Sources and Uses of Funds

The following table summarizes the various funding requirements during the six months ended June 30, 2018 and 2017 and the sources of funding to meet those requirements:

(\$000)	Six months ended	
	June 30	
	2018	2017
<b>Sources of funds</b>		
Funds from operations	\$ 72,042	\$ 102,597
Increase in bank indebtedness	41,211	-
Change in non-cash working capital and other	-	2,382
	<b>\$ 113,253</b>	<b>\$ 104,979</b>
<b>Uses of funds</b>		
Net capital expenditures	\$ 103,397	\$ 85,253
Decrease in bank indebtedness	-	19,072
Expenditures on decommissioning liability	236	654
Change in non-cash working capital and other	9,620	-
	<b>\$ 113,253</b>	<b>\$ 104,979</b>

Bank indebtedness increased during the six months ended June 30, 2018 as a result of planned net capital expenditures exceeding funds from operations and changes in non-cash working capital. Advantage continuously monitors the debt levels to ensure an optimal mix of financing and cost of capital.

## Quarterly Performance

(\$000, except as otherwise indicated)	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Daily production								
Natural gas (mcf/d)	205,712	232,456	237,780	219,812	225,844	230,906	215,369	207,332
Liquids (bbls/d)	1,067	1,105	1,227	1,395	1,098	1,151	949	1,205
Total (mcf/d)	212,114	239,086	245,142	228,182	232,432	237,812	221,063	214,562
Average prices								
Natural gas (\$/mcf)								
Excluding hedging	\$ 1.63	\$ 2.46	\$ 2.15	\$ 1.84	\$ 2.98	\$ 2.99	\$ 3.02	\$ 2.08
Including realized hedging <sup>(2)</sup>	\$ 2.05	\$ 3.19	\$ 2.69	\$ 2.26	\$ 3.09	\$ 3.24	\$ 3.35	\$ 2.71
AECO daily	\$ 1.18	\$ 2.08	\$ 1.69	\$ 1.46	\$ 2.79	\$ 2.70	\$ 3.09	\$ 2.32
AECO monthly	\$ 1.03	\$ 1.85	\$ 1.95	\$ 2.04	\$ 2.77	\$ 2.95	\$ 2.81	\$ 2.20
Liquids (\$/bbl)								
Excluding and including hedging	\$ 72.32	\$ 66.11	\$ 60.48	\$ 46.95	\$ 57.27	\$ 53.73	\$ 53.01	\$ 45.58
Edmonton Light	\$ 78.91	\$ 72.34	\$ 66.89	\$ 57.11	\$ 60.38	\$ 64.72	\$ 60.76	\$ 54.34
Total sales including realized hedging <sup>(1)(2)</sup>	\$ 45,319	\$ 73,378	\$ 65,779	\$ 51,706	\$ 69,169	\$ 72,957	\$ 71,090	\$ 56,697
Net income (loss)	\$ (15,294)	\$ 10,103	\$ 21,425	\$ 13,026	\$ 18,339	\$ 42,249	\$ (8,845)	\$ 8,185
per share - basic	\$ (0.08)	\$ 0.05	\$ 0.12	\$ 0.07	\$ 0.10	\$ 0.23	\$ (0.05)	\$ 0.04
per share - diluted	\$ (0.08)	\$ 0.05	\$ 0.11	\$ 0.07	\$ 0.10	\$ 0.22	\$ (0.05)	\$ 0.04
Funds from operations	\$ 23,160	\$ 48,882	\$ 43,883	\$ 36,722	\$ 48,625	\$ 53,972	\$ 54,610	\$ 45,132

<sup>(1)</sup> Excludes net sales of natural gas purchased from third parties.

<sup>(2)</sup> Excludes unrealized hedging.

The table above highlights the Corporation's performance for the second quarter of 2018 and for the preceding seven quarters. In the second half of 2016, Advantage attained production levels in excess of 220 mmcf/d and continued to increase production thereby substantially filling the Glacier gas plant processing capacity in the first and second quarters of 2017, consistent with our multi-year development plan. Production for the third quarter of 2017 was slightly impacted by TCPL capacity restrictions and planned production decreases due to the ongoing expansion of the Glacier gas plant. Production increased during the fourth quarter of 2017, filling the Glacier gas plant capacity and achieving record production for Advantage. Advantage's production volumes were reduced during the first and second quarter of 2018 as a result of Glacier gas plant expansion activities.

Sales and funds from operations increased through 2016 and early 2017 in conjunction with continued production growth, lower cash costs and gains realized from our commodity risk management program. Sales and funds from operations were weaker in the second half of 2017 as operational achievements were offset by a decline in natural gas prices. As commodity prices strengthened in the first quarter of 2018, sales and funds from operations recovered briefly with natural gas prices weakening significantly in the second quarter of 2018, associated with NGTL system maintenance, resulting in a considerable reduction in both sales and funds from operations. Although Advantage has generally reported net income, the net losses reported in the second and fourth quarters of 2016 and the second quarter of 2018 were primarily due to the recognition of unrealized derivative losses that are non-cash and can fluctuate greatly between periods from changes to the estimated value to settle outstanding contracts (see "Commodity Price Risk Management and Market Diversification"). Net income generated through 2017 and the first quarter of 2018 has been attributable to increased production with strong funds from operations as well as the recognition of unrealized derivative gains resulting from an increase in the fair value of our outstanding derivative contracts (see "Commodity Price Risk Management and Market Diversification"). Despite weak Alberta natural gas prices, Advantage has continuously generated funds from operations and maintained a strong balance sheet. Advantage's production growth, industry leading low-cost structure, strong capital efficiencies and commodity risk management program have achieved long-term profitability despite the natural gas price volatility.

## **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 has determined there to be a single cash-generating unit ("CGU"), the Glacier Area, on the basis of its ability to generate independent cash flows, similar reserve characteristics, geographical location, and shared infrastructure, namely a single processing plant owned by Advantage. For purposes of assessment of impairment, Management has allocated all exploration and evaluation assets to the Glacier Area CGU, on the basis of their geographic proximity.

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

During the six months ended June 30, 2018, the Corporation adopted IFRS 9 and IFRS 15. Additional information regarding the adoption of the standards and their impact can be found in the Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2018.

## **Accounting Pronouncements not yet Adopted**

A description of additional accounting standards and interpretations that will be adopted in future periods can be found in the notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2018.

## **Evaluation of Disclosure Controls and Procedures**

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

## **Evaluation of Internal Controls Over Financial Reporting**

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

Advantage's Chief Executive Officer and Chief Financial Officer are required to disclose any change in the ICFR that occurred during our most recent interim period that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR. No material changes in the ICFR were identified during the interim period ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our ICFR.

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

### Non-GAAP Measures

The Corporation discloses several financial and performance measures in the MD&A that do not have any standardized meaning prescribed under GAAP. These financial and performance measures include "funds from operations", "cash netbacks", "total corporate cash costs per unit", "net sales of natural gas purchased from third parties", and "net capital expenditures", which should not be considered as alternatives to, or more meaningful than "net income", "comprehensive income", "cash provided by operating activities", "cash used in investing activities", or individual expenses presented within the condensed consolidated statement of comprehensive income as determined in accordance with GAAP. Management believes that these measures provide an indication of the results generated by the Corporation's principal business activities and provide useful supplemental information for analysis of the Corporation's operating performance and liquidity. Advantage's method of calculating these measures may differ from other companies, and accordingly, they may not be comparable to similar measures used by other companies.

Net capital expenditures include total capital expenditures related to property, plant and equipment and exploration and evaluation assets incurred during the period. Management considers this measure reflective of actual capital activity for the period as it excludes changes in working capital related to other periods.

Total corporate cash costs per unit include operating expense, royalty expense, transportation expense, general and administrative expense excluding non-cash items such as share based compensation, and finance expense excluding non-cash accretion. Management considers total corporate cash costs to be a useful liquidity measure of the Corporation's ongoing costs necessary to maintain our business.

Net sales of natural gas purchased from third parties represents the revenue or loss generated from the sale of natural gas volumes purchased from third parties, after deducting the cost to purchase the volumes. The purchase and sale transactions are non-routine and are considered by Management to be highly joined for analytical purposes.

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 mcf 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		
	2018	2017	% change	2018	2017	% change
Cash provided by operating activities	\$ 23,681	\$ 44,382	(47) %	\$ 84,586	\$ 99,892	(15) %
Expenditures on decommissioning liability	115	91	26 %	236	654	(64) %
Changes in non-cash working capital	2,036	5,727	(64) %	(7,857)	5,416	(245) %
Finance expense <sup>(1)</sup>	(2,672)	(1,575)	70 %	(4,923)	(3,365)	46 %
<b>Funds from operations</b>	<b>\$ 23,160</b>	<b>\$ 48,625</b>	<b>(52) %</b>	<b>\$ 72,042</b>	<b>\$ 102,597</b>	<b>(30) %</b>

<sup>(1)</sup> Finance expense excludes non-cash accretion expense.

## Conversion Ratio

The term “boe” or barrels of oil equivalent and “mcf” or thousand cubic feet equivalent may be misleading, particularly if used in isolation. A boe or 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 and Other Advisories

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

In particular, forward-looking statements included in this MD&A include, but are not limited to, the potential that Advantage may restrict natural gas production levels from time-to-time; anticipated annual production for 2018, including the expected amount of liquids production and condensate; the anticipated effect of increased drilling on Advantage's lands on the percentage of the Corporation's liquids production during 2019 and 2020; the Corporation's expectations with respect to the market for natural gas and volatility in natural gas prices; the anticipated advantages from the Corporation's participation in the Dawn market; effect of commodity prices on the Corporation's financial results, condition and performance; industry conditions, including the effect of changes in commodity prices, weather and general economic conditions on the natural gas industry and demand for 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; future royalty rates, including the anticipated 2018 average royalty rate; anticipated average operating expense in the second half of 2018 and estimated operating costs for 2018; anticipated average transportation expense for 2018; the Corporation's expectation that it will realize higher cash finance expense in 2018; expected total corporate cash costs for the second half of 2018 and total annual 2018 corporate cash costs; future commitments and contractual obligations; terms of the Corporation's credit facilities, including timing of the 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 belief that it is well positioned to successfully execute its multi-year development plan; the Corporation's strategy for managing its capital structure, including the use of equity financing arrangements, share repurchases, obtaining additional financing through bank indebtedness, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend or adjusting capital spending; the 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 ability to satisfy all liabilities and commitments and meet future obligations as they become due; the Corporation's drilling and completion plans, including the expected timing of resuming its drilling and completion program and the focus of such program, test rates from certain of the Corporation's wells, potential longer term options for the tie-in of current and future wells at Wembley and the status and expected timing of receipt of stakeholder communications and regulatory approvals and commencing production, expected capacity at the Corporation's compressor and liquids handling facility at Valhalla, the anticipated timing of construction of the Corporation's compressor and liquids handling facility at Valhalla and the timing of bringing such facility on stream, the status of the Corporation's well inventory, and other matters; the Corporation's intentions to monitor debt levels to ensure an optimal mix of financing and cost of capital; and the statements under "critical accounting estimates" in this MD&A.

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

could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; changes or fluctuations in production levels; individual well productivity; delays in anticipated timing of drilling and completion of wells; lack of available capacity on pipelines; delays in timing of completion of the Corporation's facility installation at Valhalla; delays in obtaining stakeholder and regulatory approvals; the failure to extend the credit facilities at each annual review; competition from other producers; the lack of availability of qualified personnel or management; ability to access sufficient capital from internal and external sources; credit risk; and the risks and uncertainties described in the Corporation's Annual Information Form which is available at [www.sedar.com](http://www.sedar.com) and [www.advantageog.com](http://www.advantageog.com). Readers are also referred to risk factors described in other documents Advantage files with Canadian securities authorities.

With respect to forward-looking statements contained in this MD&A, in addition to other assumptions identified herein, Advantage has made assumptions regarding, but not limited to: current and future prices of oil and natural gas; that the current commodity price and foreign exchange environment will continue or improve; conditions in general economic and financial markets; effects of regulation by governmental agencies; receipt of required stakeholder and regulatory approvals; royalty regimes; future exchange rates; royalty rates; future operating costs; availability of skilled labour; availability of drilling and related equipment; timing and amount of capital expenditures; the impact of increasing competition; the price of crude oil and natural gas; that the Corporation will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Corporation's conduct and results of operations will be consistent with its expectations; that the Corporation will have the ability to develop the Corporation's crude oil and natural gas properties in the manner currently contemplated; availability of pipeline capacity; that current or, where applicable, proposed assumed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; and that the estimates of the Corporation's production, reserves and resources volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects.

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

This MD&A and, in particular, the information in respect of the Corporation's prospective annual operating costs, transportation costs, total corporate cash costs and cash finance expense may contain future-oriented financial information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management to provide an outlook of the Corporation's activities and results and may not be appropriate for other purposes. The FOFI has been prepared based on a number of assumptions, including the assumptions discussed above, and assumptions with respect to the costs and expenditures to be incurred by the Corporation, capital equipment and operating costs, foreign exchange rates, taxation rates for the Corporation, general and administrative expenses and the prices to be paid for the Corporation's production. Management does not have firm commitments for all of the costs, expenditures, prices or other financial assumptions used to prepare the FOFI or assurance that such operating results will be achieved and, accordingly, the complete financial effects of all of those costs, expenditures, prices and operating results are not objectively determinable. The actual results of the operations of the Corporation and the resulting financial results may vary from the amounts set forth herein, and such variations may be material. The Corporation and management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments. However, because this information is highly subjective and subject to numerous risks including the risks discussed above, it should not be relied upon as necessarily indicative of future results. FOFI contained in this MD&A was made as of the date of this MD&A and the Corporation disclaims any intention or obligations to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law.

References in this MD&A to production test 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 preliminary.

**Additional Information**

Additional information relating to Advantage can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and the Corporation's website at [www.advantageog.com](http://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 2, 2018

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Statement of Financial Position

(unaudited, expressed in thousands of Canadian dollars)

	Notes	June 30, 2018	December 31, 2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	\$ 3,846	\$ 6,916
Trade and other receivables		17,555	28,678
Prepaid expenses and deposits		3,152	1,602
Derivative asset	6	19,018	33,093
<b>Total current assets</b>		<b>43,571</b>	<b>70,289</b>
<b>Non-current assets</b>			
Derivative asset	6	10,325	17,777
Exploration and evaluation assets	4	22,680	22,143
Property, plant and equipment	5	1,630,355	1,580,973
<b>Total non-current assets</b>		<b>1,663,360</b>	<b>1,620,893</b>
<b>Total assets</b>		<b>\$ 1,706,931</b>	<b>\$ 1,691,182</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other accrued liabilities		\$ 27,759	\$ 51,004
Derivative liability	6	324	111
<b>Total current liabilities</b>		<b>28,083</b>	<b>51,115</b>
<b>Non-current liabilities</b>			
Derivative liability	6	1,393	-
Bank indebtedness	7	250,189	208,978
Decommissioning liability	8	46,896	46,913
Deferred income tax liability		71,209	72,500
<b>Total non-current liabilities</b>		<b>369,687</b>	<b>328,391</b>
<b>Total liabilities</b>		<b>397,770</b>	<b>379,506</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	10	2,342,689	2,340,801
Contributed surplus		110,865	110,077
Deficit		(1,144,393)	(1,139,202)
<b>Total shareholders' equity</b>		<b>1,309,161</b>	<b>1,311,676</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 1,706,931</b>	<b>\$ 1,691,182</b>

See accompanying Notes to the Condensed Consolidated Financial Statements



## Consolidated Statement of Comprehensive Income (Loss)

	Notes	Three months ended June 30		Six months ended June 30	
		2018	2017	2018	2017
<small>(unaudited, expressed in thousands of Canadian dollars, except for per share amounts)</small>					
Sales of natural gas and liquids from production	13	\$ 37,486	\$ 66,942	\$ 95,542	\$ 134,705
Sales of natural gas purchased from third parties	14	5,078	-	5,078	-
Royalty recovery (expense)		1,070	(3,192)	(142)	(5,332)
Natural gas and liquids revenue		43,634	63,750	100,478	129,373
Operating expense		(6,616)	(5,618)	(13,576)	(10,479)
Transportation expense		(12,069)	(7,798)	(24,396)	(15,917)
Natural gas purchased from third parties	14	(3,967)	-	(3,967)	-
General and administrative expense		(2,477)	(2,478)	(4,223)	(4,553)
Share based compensation	12	(1,456)	(966)	(2,200)	(2,368)
Depreciation expense	5	(25,153)	(29,475)	(53,186)	(59,295)
Finance expense		(2,919)	(1,791)	(5,434)	(3,815)
Gains (losses) on derivatives	6	(9,575)	9,738	22	50,811
Other income		-	117	-	117
<b>Income (loss) before taxes</b>		<b>(20,598)</b>	<b>25,479</b>	<b>(6,482)</b>	<b>83,874</b>
Income tax recovery (expense)	9	5,304	(7,140)	1,291	(23,286)
<b>Net income (loss) and comprehensive income (loss)</b>		<b>\$ (15,294)</b>	<b>\$ 18,339</b>	<b>\$ (5,191)</b>	<b>\$ 60,588</b>
<b>Net income (loss) per share</b>	11				
Basic		\$ (0.08)	\$ 0.10	\$ (0.03)	\$ 0.33
Diluted		\$ (0.08)	\$ 0.10	\$ (0.03)	\$ 0.32

See accompanying Notes to the Condensed Consolidated Financial Statements

## Consolidated Statement of Changes in Shareholders' Equity

(unaudited, expressed in thousands of Canadian dollars)	Notes	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2017		\$ 2,340,801	\$ 110,077	\$ (1,139,202)	\$ 1,311,676
Net loss and comprehensive loss		-	-	(5,191)	(5,191)
Share based compensation	12(b)	-	3,499	-	3,499
Settlement of Performance Awards	12(b)	1,906	(2,711)	-	(805)
Share repurchases	10(b)	(18)	-	-	(18)
<b>Balance, June 30, 2018</b>		<b>\$ 2,342,689</b>	<b>\$ 110,865</b>	<b>\$ (1,144,393)</b>	<b>\$ 1,309,161</b>

(unaudited, expressed in thousands of Canadian dollars)	Notes	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2016		\$ 2,334,199	\$ 108,315	\$ (1,234,241)	\$ 1,208,273
Net income and comprehensive income		-	-	60,588	60,588
Share based compensation	12(b)	-	3,869	-	3,869
Settlement of Performance Awards	12(b)	5,374	(5,374)	-	-
Exercise of Stock Options	12(a)	1,106	(1,106)	-	-
<b>Balance, June 30, 2017</b>		<b>\$ 2,340,679</b>	<b>\$ 105,704</b>	<b>\$ (1,173,653)</b>	<b>\$ 1,272,730</b>

See accompanying Notes to the Condensed Consolidated Financial Statements

## Consolidated Statement of Cash Flows

(unaudited, expressed in thousands of Canadian dollars)	Notes	Three months ended June 30		Six months ended June 30	
		2018	2017	2018	2017
<b>Operating Activities</b>					
Income (loss) before taxes		\$ (20,598)	\$ 25,479	\$ (6,482)	\$ 83,874
Add (deduct) items not requiring cash:					
Share based compensation	12	1,456	966	2,200	2,368
Depreciation expense	5	25,153	29,475	53,186	59,295
Unrealized (gains) losses on derivatives	6	17,408	(7,511)	23,133	(43,390)
Finance expense		2,919	1,791	5,434	3,815
Settlement of Performance Awards	12(b)	(506)	-	(506)	-
Expenditures on decommissioning liability	8	(115)	(91)	(236)	(654)
Changes in non-cash working capital	15	(2,036)	(5,727)	7,857	(5,416)
Cash provided by operating activities		<b>23,681</b>	<b>44,382</b>	<b>84,586</b>	<b>99,892</b>
<b>Financing Activities</b>					
Increase (decrease) in bank indebtedness		13,000	(13,241)	42,999	(19,072)
Share repurchases		(18)	-	(18)	-
Interest paid		(2,802)	(1,987)	(6,711)	(3,267)
Cash provided by (used in) financing activities		<b>10,180</b>	<b>(15,228)</b>	<b>36,270</b>	<b>(22,339)</b>
<b>Investing Activities</b>					
Payments on property, plant and equipment	5, 15	(38,667)	(25,237)	(123,389)	(71,091)
Payments on exploration and evaluation assets	4	(34)	(3,917)	(537)	(6,462)
Cash used in investing activities		<b>(38,701)</b>	<b>(29,154)</b>	<b>(123,926)</b>	<b>(77,553)</b>
Net change in cash		(4,840)	-	(3,070)	-
Cash, beginning of period		8,686	-	6,916	-
Cash, end of period		\$ 3,846	\$ -	\$ 3,846	\$ -

See accompanying Notes to the Condensed Consolidated Financial Statements

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 (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 – 2<sup>nd</sup> 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 condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”) as defined in the Chartered Professional Accountants Canada Handbook (the “CPA Canada Handbook”). The CPA Canada Handbook incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, 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, 2017, except as noted below. Certain disclosures included in the notes to the annual consolidated financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies applied in these interim condensed consolidated financial statements are based on IFRS issued and outstanding as of August 2, 2018, 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, 2017.

The methods used to measure fair values of derivative instruments are discussed in note 6.

#### (c) Functional and presentation currency

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

#### (d) Changes to significant accounting policies

##### (i) *IFRS 9, Financial Instruments*

###### Adoption

The Corporation adopted IFRS 9 effective January 1, 2018. The standard was applied retrospectively. Comparative figures have not been restated, in accordance with transitional provisions. The Corporation’s condensed consolidated financial statements were substantially unchanged by the adoption of IFRS 9.

###### Transition

On January 1, 2018, the Corporation determined the appropriate classification category and measurement for each of its financial assets and financial liabilities under IFRS 9 and compared each to their original classification and measurement under IAS 39. Under IFRS 9, financial instruments are classified as amortized cost, fair value through other comprehensive income or fair value through profit and loss. No adjustments were made to the carrying amounts of financial instruments as a result of the adoption of IFRS 9.

## 2. Basis of preparation (continued)

Financial Instrument	Measurement Category (IAS 39)	Measurement Category (IFRS 9)
Cash and cash equivalents	Loans and receivables (measured at amortized cost)	Amortized cost
Trade and other receivables	Loans and receivables (measured at amortized cost)	Amortized cost
Prepaid expenses and deposits	Loans and receivables (measured at amortized cost)	Amortized cost
Derivative asset	Fair value through profit and loss	Fair value through profit and loss
Trade and other accrued liabilities	Financial liabilities (measured at amortized cost)	Amortized cost
Derivative liability	Fair value through profit and loss	Fair value through profit and loss
Bank indebtedness	Financial liabilities (measured at amortized cost)	Amortized cost

### Derivative assets and liabilities

The Corporation's derivative assets and liabilities are classified as fair value through profit and loss and are recorded on the Consolidated Statement of Financial Position as derivatives assets and liabilities measured at fair value. Gains and losses on these instruments are recorded as gains and losses on derivatives in the Consolidated Statement of Comprehensive Income (Loss) in the period they occur. Gains and losses on derivative instruments are comprised of cash receipts and payments associated with periodic settlement that occurs over the life of the instrument, and non-cash gains and losses associated with changes in the fair values of the instruments, which are remeasured at each reporting date.

### Impairment of Financial Assets

IFRS 9 requires the application of an expected credit loss ("ECL") model to financial assets measured at amortized cost, contract assets and debt investments measured at fair value through other comprehensive income. For the Corporation's financial assets measured at amortized cost, loss allowances are determined based on the expected credit loss over the asset's lifetime. ECLs are a probability-weighted estimate of credit losses, considering possible default events over the expected life of a financial asset. ECLs are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Corporation expects to receive) over the life of the financial asset, discounted at the effective interest rate specific to the financial asset. Substantially all of the Corporation's trade and other receivables are with counterparties with high credit ratings. At June 30, 2018, the average expected credit loss for trade and other receivables was 0.01% and no expected credit loss was recognized.

### (ii) *IFRS 15, Revenue from Contracts with Customers*

#### Adoption

The Corporation adopted IFRS 15 effective January 1, 2018. The standard was adopted using the Modified Retrospective approach. The Corporation elected to apply IFRS 15 retrospectively only to contracts that were not completed as at January 1, 2018 and, for modified contracts, elected to evaluate the original contract together with any contract modifications at the date of initial application. The Corporation's revenue recognition was substantially unchanged by the adoption of IFRS 15 and did not result in an adjustment to the Deficit balance at January 1, 2018.

#### Revenue recognition

The Corporation's revenue is comprised of natural gas and liquids sales to customers under fixed and variable volume contracts. Revenue is recognized when the Corporation has satisfied its performance obligations which occurs upon the delivery of volumes to the customer. The transaction price used to determine revenue from natural gas and liquids sales is the market price, net of any marketing and fractionation fees for liquids sales as specified in the contract. Payments are normally received from customers within 30 days following the end of the production month. The Corporation's revenue transactions do not include any financing components. The Corporation does not have any long-term contracts with unfulfilled performance obligations and does not disclose information about remaining performance obligations with an original expected duration of 12 months or less.

## 2. Basis of preparation (continued)

During periods in which production is restricted, such as plant expansions and turnarounds or third party transportation restrictions, the Corporation may purchase natural gas to satisfy physical sales commitments. Revenue generated from the sale of purchased natural gas is presented as 'sales of natural gas purchased from third parties' on the Corporation's Consolidated Statement of Comprehensive Income (Loss). The cost to purchase natural gas volumes is presented as 'natural gas purchased from third parties' on the Corporation's Consolidated Statement of Comprehensive Income (Loss). The Corporation did not incur significant natural gas purchases prior to January 1, 2018.

### (e) Accounting pronouncements not yet adopted

IFRS 16 *Leases* applies to annual periods beginning on or after January 1, 2019. Under IFRS 16, lease assets and liabilities will be required to be recognized on the balance sheet for most leases, where the entity is acting as a lessee. Certain leases of low-value assets and leases with short-terms (less than 12 months) will be exempt from the balance sheet recognition requirements, and may continue to be treated as operating leases. The Corporation is currently reviewing the impact of IFRS 16 on the financial statements.

## 3. Cash and cash equivalents

	June 30, 2018	December 31, 2017
Cash at financial institutions	\$ 3,846	\$ 6,916

Cash at financial institutions earns interest at floating rates based on daily deposit rates. As at June 30, 2018, cash at financial institutions included US\$0.9 million (December 31, 2017: US\$0.1 million). The Corporation only deposits cash with major financial institutions of high quality credit ratings.

## 4. Exploration and evaluation assets

Balance at December 31, 2016	\$	16,012
Additions		7,207
Lease expiries		(168)
Transferred to property, plant and equipment (note 5)		(908)
Balance at December 31, 2017	\$	22,143
Additions		537
<b>Balance at June 30, 2018</b>	<b>\$</b>	<b>22,680</b>

## 5. Property, plant and equipment

<b>Cost</b>	<b>Natural gas and liquids properties</b>	<b>Furniture and equipment</b>	<b>Total</b>
Balance at December 31, 2016	\$ 1,993,684	\$ 5,648	\$ 1,999,332
Additions	241,449	118	241,567
Change in decommissioning liability (note 8)	6,160	-	6,160
Transferred from exploration and evaluation assets (note 4)	908	-	908
Balance at December 31, 2017	\$ 2,242,201	\$ 5,766	\$ 2,247,967
Additions	102,860	-	102,860
Change in decommissioning liability (note 8)	(292)	-	(292)
<b>Balance at June 30, 2018</b>	<b>\$ 2,344,769</b>	<b>\$ 5,766</b>	<b>\$ 2,350,535</b>

<b>Accumulated depreciation</b>	<b>Natural gas and liquids properties</b>	<b>Furniture and equipment</b>	<b>Total</b>
Balance at December 31, 2016	\$ 544,790	\$ 4,259	\$ 549,049
Depreciation	117,643	302	117,945
Balance at December 31, 2017	\$ 662,433	\$ 4,561	\$ 666,994
Depreciation	53,066	120	53,186
<b>Balance at June 30, 2018</b>	<b>\$ 715,499</b>	<b>\$ 4,681</b>	<b>\$ 720,180</b>

<b>Net book value</b>	<b>Natural gas and liquids properties</b>	<b>Furniture and equipment</b>	<b>Total</b>
At December 31, 2017	\$ 1,579,768	\$ 1,205	\$ 1,580,973
<b>At June 30, 2018</b>	<b>\$ 1,629,270</b>	<b>\$ 1,085</b>	<b>\$ 1,630,355</b>

During the six months ended June 30, 2018, Advantage capitalized general and administrative expenditures directly related to development activities of \$2.0 million (year ended December 31, 2017 - \$4.1 million) and capitalized share based compensation directly related to development activities of \$1.3 million (year ended December 31, 2017 - \$3.2 million).

At June 30, 2018, Advantage included future development costs of \$1.7 billion (December 31, 2017 – \$1.7 billion) in property, plant and equipment costs subject to depreciation.

## 6. Financial risk management

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

Trade and other receivables, prepaids and deposits, trade and other accrued liabilities and bank indebtedness are classified as 'amortized cost'. As at June 30, 2018, there were no significant differences between the carrying amounts reported on the 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: Fair value is determined using inputs that are not observable. Advantage has no assets or liabilities that use level 3 inputs.



## 6. Financial risk management (continued)

### (a) Price risk

The Corporation's derivative contracts are classified as Level 2 within the fair value hierarchy. As at June 30, 2018, the Corporation had the following derivative contracts in place:

Description of Derivative	Term	Volume	Price
<b>Natural gas – AECO</b>			
Fixed price swap	July 2017 to June 2018	14,217 mcf/d	Cdn \$3.00/mcf
Call option sold	April 2017 to December 2018	23,695 mcf/d	Cdn \$3.17/mcf <sup>(1)</sup>
Fixed price swap	October 2017 to September 2018	4,739 mcf/d	Cdn \$3.01/mcf
Call option sold	October 2017 to December 2018	4,739 mcf/d	Cdn \$3.01/mcf <sup>(2)</sup>
Fixed price swap	October 2017 to September 2018	4,739 mcf/d	Cdn \$3.01/mcf
Call option sold	October 2017 to December 2018	4,739 mcf/d	Cdn \$3.06/mcf <sup>(3)</sup>
Fixed price swap	October 2017 to September 2018	4,739 mcf/d	Cdn \$3.01/mcf
Call option sold	October 2017 to December 2018	4,739 mcf/d	Cdn \$3.11/mcf <sup>(4)</sup>
Put option bought	June 2018 to September 2018	61,608 mcf/d	Cdn \$1.42/mcf
Fixed price swap	October 2018 to March 2019	18,956 mcf/d	Cdn \$3.00/mcf
Fixed price swap	October 2018 to March 2019	18,956 mcf/d	Cdn \$3.00/mcf
Fixed price swap	October 2018 to March 2019	9,478 mcf/d	Cdn \$3.00/mcf
Fixed price swap	October 2018 to December 2019	25,000 mcf/d	Cdn \$2.58/mcf
Fixed price swap	November 2018 to March 2019	9,478 mcf/d	Cdn \$2.64/mcf
Fixed price swap	April 2019 to October 2019	61,608 mcf/d	Cdn \$1.77/mcf
<b>Natural gas – Dawn</b>			
Fixed price swap	April 2018 to October 2018	15,000 mcf/d	US \$2.70/mcf
Fixed price swap	April 2018 to October 2018	25,000 mcf/d	US \$2.79/mcf
Fixed price swap	November 2018 to March 2019	25,000 mcf/d	US \$3.13/mcf
<b>Natural gas – AECO/Henry Hub Basis Differential</b>			
Basis swap	January 2018 to May 2018	25,000 mcf/d	Henry Hub less US \$0.95/mcf
Basis swap	January 2020 to December 2020	5,000 mcf/d	Henry Hub less US \$1.20/mcf
Basis swap	January 2020 to December 2024	15,000 mcf/d	Henry Hub less US \$1.20/mcf
Basis swap	January 2021 to December 2024	5,000 mcf/d	Henry Hub less US \$1.135/mcf
Basis swap	January 2021 to December 2024	2,500 mcf/d	Henry Hub less US \$1.185/mcf
Basis swap	January 2021 to December 2024	17,500 mcf/d	Henry Hub less US \$1.20/mcf

<sup>(1)</sup> Call option sold is only exercisable by the counterparty if AECO exceeds Cdn \$3.43/mcf.

<sup>(2)</sup> Call option sold is only exercisable by the counterparty if AECO exceeds Cdn \$3.32/mcf.

<sup>(3)</sup> Call option sold is only exercisable by the counterparty if AECO exceeds Cdn \$3.38/mcf.

<sup>(4)</sup> Call option sold is only exercisable by the counterparty if AECO exceeds Cdn \$3.43/mcf.

## 6. Financial risk management (continued)

### (a) Price risk

As at June 30, 2018, the fair value of the derivatives outstanding resulted in an aggregate asset of \$29.3 million (December 31, 2017 – \$50.9 million) and an aggregate liability of \$1.7 million (December 31, 2017 – \$0.1 million). The fair value of the commodity risk management derivatives have been allocated to current and non-current assets and liabilities based on the expected timing of cash settlements.

The table below summarizes realized and unrealized gains (losses) on derivatives recognized in net income (loss).

	Three months ended		Six months ended	
	June 30		June 30	
	2018	2017	2018	2017
Realized gains on derivatives	\$ 7,833	\$ 2,227	\$ 23,155	\$ 7,421
Unrealized gains (losses) on derivatives	(17,408)	7,511	(23,133)	43,390
<b>Gains (losses) on derivatives</b>	<b>\$ (9,575)</b>	<b>\$ 9,738</b>	<b>\$ 22</b>	<b>\$ 50,811</b>

### (b) Capital management

Advantage's capital structure as at June 30, 2018 and December 31, 2017 is as follows:

	June 30, 2018		December 31, 2017	
Bank indebtedness (non-current) (note 7)	\$	250,189	\$	208,978
Working capital deficit		3,206		13,808
<b>Total debt<sup>(1)</sup></b>	<b>\$</b>	<b>253,395</b>	<b>\$</b>	<b>222,786</b>
Shares outstanding (note 10)		186,198,528		185,963,186
Share closing market price (\$/share)	\$	4.11	\$	5.40
Market capitalization		765,276		1,004,201
<b>Total capitalization</b>	<b>\$</b>	<b>1,018,671</b>	<b>\$</b>	<b>1,226,987</b>

<sup>(1)</sup> Total debt is a non-GAAP measure that includes bank indebtedness and working capital deficit.

## 7. Bank indebtedness

	June 30, 2018	December 31, 2017
Revolving credit facility	\$ 253,000	\$ 210,001
Discount on Bankers Acceptances and other fees	(2,811)	(1,023)
<b>Balance, end of period</b>	<b>\$ 250,189</b>	<b>\$ 208,978</b>

On April 30, 2018, the Credit Facilities were renewed with no changes to the borrowing base of \$400 million, comprised of a \$20 million extendible revolving operating loan facility from one financial institution and a \$380 million extendible revolving loan facility from a syndicate of financial institutions. The revolving period for the Credit Facilities will end in June 2019 unless extended at the option of the syndicate for a further 364 day period. If not extended, the credit facility will be converted at that time into a one-year term facility, with the principal payable at the end of such one-year term. The Corporation had letters of credit of US\$5 million outstanding at June 30, 2018. The Corporation did not have any financial covenants at June 30, 2018 and December 31, 2017.

## 8. 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 2018 and 2078. A risk-free rate of 2.16% (December 31, 2017 – 2.20%) and an inflation factor of 2.0% (December 31, 2017 – 2.0%) were used to calculate the fair value of the decommissioning liability at June 30, 2018. A reconciliation of the decommissioning liability is provided below:

	Six months ended June 30, 2018	Year ended December 31, 2017
Balance, beginning of year	\$ 46,913	\$ 40,992
Accretion expense	511	951
Property acquisitions	-	751
Liabilities incurred	189	2,175
Change in estimates	(464)	(2,665)
Effect of change in risk-free rate and inflation rate factor	(17)	5,899
Liabilities settled	(236)	(1,190)
<b>Balance, end of period</b>	<b>\$ 46,896</b>	<b>\$ 46,913</b>

## 9. Income taxes

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Income tax recovery (expense)	\$ 5,304	\$ (7,140)	\$ 1,291	\$ (23,286)

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.

## 10. 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, 2016	184,654,333	\$ 2,334,199
Shares issued on Performance Award settlements (note 12(b))	825,359	-
Contributed surplus transferred on Performance Award settlements (note 12(b))	-	5,374
Shares issued on exercise of stock options (note 12(a))	483,494	-
Contributed surplus transferred on exercise of stock options (note 12(a))	-	1,228
Balance at December 31, 2017	185,963,186	\$ 2,340,801
Shares issued on Performance Award settlements (note 12(b))	239,791	-
Contributed surplus transferred on Performance Award settlements (note 12(b))	-	1,906
Share repurchases	(4,449)	(18)
<b>Balance at June 30, 2018</b>	<b>186,198,528</b>	<b>\$ 2,342,689</b>

On March 27, 2018, Advantage commenced an odd-lot share repurchase program for registered and beneficial shareholders of Advantage who own 99 or fewer common shares. The program was voluntary and allowed odd-lot holders to sell all, but not less than all, of their common shares without incurring brokerage fees. The program expired on June 19, 2018 and 4,449 shares were repurchased under the program for a total of \$18 thousand.

## 11. Net income (loss) per share

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Net income (loss)				
Basic and diluted	\$ (15,294)	\$ 18,339	\$ (5,191)	\$ 60,588
Weighted average shares outstanding				
Basic	186,189,658	185,789,764	186,077,047	185,318,614
Stock Options	-	549,651	-	637,404
Performance Awards	-	2,931,385	-	2,931,385
Diluted	186,189,658	189,270,800	186,077,047	188,887,403
Net income (loss) per share				
Basic	\$ (0.08)	\$ 0.10	\$ (0.03)	\$ 0.33
Diluted	\$ (0.08)	\$ 0.10	\$ (0.03)	\$ 0.32

## 12. Share based compensation

### (a) Stock Option Plan

The following tables summarize information about changes in Stock Options outstanding at June 30, 2018:

	Stock Options	Weighted-Average Exercise Price
Balance at December 31, 2016	3,109,915	\$ 5.75
Exercised	(1,085,681)	4.72
Forfeited	(18,377)	6.82
Balance at December 31, 2017	2,005,857	\$ 6.30
Forfeited	(4,396)	6.82
<b>Balance at June 30, 2018</b>	<b>2,001,461</b>	<b>\$ 6.29</b>

Range of Exercise Price	Stock Options Outstanding			Stock Options Exercisable	
	Number of Stock Options Outstanding	Weighted Average Remaining Contractual Life - Years	Weighted Average Exercise Price	Number of Stock Options Exercisable	Weighted Average Exercise Price
\$5.87 - \$6.81	1,110,009	0.79	\$ 5.87	1,110,009	\$ 5.87
\$6.82	891,452	1.77	6.82	891,452	6.82
\$5.87 - \$6.82	2,001,461	1.23	\$ 6.29	2,001,461	\$ 6.29

No Stock Options were exercised during the six months ended June 30, 2018.

### (b) Performance Incentive Plan

Under the Performance Incentive Plan, service providers can be granted two types of Incentive Awards: Restricted Awards and Performance Awards. As at June 30, 2018, no Restricted Awards have been granted.

The following table is a continuity of Performance Awards:

	Performance Awards
Balance at December 31, 2016	1,327,663
Granted	723,676
Settled	(402,582)
Forfeited	(68,458)
Balance at December 31, 2017	1,580,299
Granted	1,512,075
Settled	(248,688)
Forfeited	(13,414)
<b>Balance at June 30, 2018</b>	<b>2,830,272</b>

During April 2018, 136,631 Performance Awards matured and were settled with the issuance of 239,791 common shares, while 112,057 Performance Awards matured and were net settled for \$0.5 million of cash consideration.

## 12. Share based compensation (continued)

### (b) Performance Incentive Plan

Share based compensation recognized by plan for the three and six months ended June 30, 2018 and 2017 is as follows:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Stock Options	\$ 3	\$ 46	\$ 57	\$ 248
Performance Awards	2,189	1,446	3,442	3,621
Total share based compensation	2,192	1,492	3,499	3,869
Capitalized	(736)	(526)	(1,299)	(1,501)
<b>Net share based compensation expense</b>	<b>\$ 1,456</b>	<b>\$ 966</b>	<b>\$ 2,200</b>	<b>\$ 2,368</b>

## 13. Sales of natural gas and liquids from production

Advantage's revenue is comprised of natural gas and liquids sales to multiple customers. Revenue from the transfer of natural gas and liquids volumes to customers is recognized at a point of time, when Advantage's performance obligations are fully satisfied upon transfer of these volumes to customers. For the three and six months ended June 30, 2018 and 2017, revenue realized from natural gas and liquids sales was as follows:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Natural gas sales	\$ 30,464	\$ 61,219	\$ 81,945	\$ 123,416
Liquids sales	7,022	5,723	13,597	11,289
<b>Sales of natural gas and liquids from production</b>	<b>\$ 37,486</b>	<b>\$ 66,942</b>	<b>\$ 95,542</b>	<b>\$ 134,705</b>

## 14. Sales of natural gas purchased from third parties

During the three and six months ended June 30, 2018, the Corporation purchased natural gas volumes from third parties in order to satisfy physical sales commitments. No natural gas volumes were purchased during the three and six months ended June 30, 2017.

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Sales of natural gas purchased from third parties	\$ 5,078	\$ -	\$ 5,078	\$ -
Natural gas purchased from third parties	\$ (3,967)	\$ -	\$ (3,967)	\$ -

## 15. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Source (use) of cash:				
Trade and other receivables	\$ 858	\$ 741	\$ 11,123	\$ 4,127
Prepaid expenses and deposits	(1,655)	(478)	(1,550)	(444)
Trade and other accrued liabilities	(14,616)	(4,208)	(23,245)	(2,900)
	\$ (15,413)	\$ (3,945)	\$ (13,672)	\$ 783
Related to operating activities	\$ (2,036)	\$ (5,727)	\$ 7,857	\$ (5,416)
Related to financing activities	-	-	-	-
Related to investing activities	(13,377)	1,782	(21,529)	6,199
	\$ (15,413)	\$ (3,945)	\$ (13,672)	\$ 783

## Directors

Jill T. Angevine <sup>(1)(3)</sup>  
Stephen E. Balog <sup>(1)(2)(3)</sup>  
Grant B. Fagerheim <sup>(2)(3)</sup>  
Paul G. Haggis <sup>(1)(2)(3)</sup>  
Andy J. Mah  
Ronald A. McIntosh <sup>(2)(3)</sup>

<sup>(1)</sup> Member of Audit Committee

<sup>(2)</sup> Member of Reserve Evaluation Committee

<sup>(3)</sup> 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  
David Sterna, Vice President, Marketing and Commercial

## 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  
The Bank of Tokyo-Mitsubishi UFJ, Ltd., 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
mcf	- thousand cubic feet equivalent (1 bbl = 6 mcf)
mcf/d	- thousand cubic feet equivalent per day
bcf	- billion cubic feet
gj	- gigajoules
NGLs	- natural gas liquids
WTI	- West Texas Intermediate

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## Stock Exchange Trading Symbol

(Toronto Stock Exchange and New York Stock Exchange)

Shares: AAV