Advantage Announces 2020 Capital Budget

Advancing Light Oil with A Solid Natural Gas Foundation

(TSX: AAV)

CALGARY, Jan. 8, 2020 /CNW/ - Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to announce its 2020 capital budget which targets investment between $170 and $200 million. These investments will continue to advance the Corporation's liquids transition plan by focusing on our Progress and Pipestone/Wembley light oil assets, complementing our solid foundation of low-cost natural gas and condensate at Glacier and Valhalla. The 2020 capital budget is expected to culminate in a significant increase in revenue by year-end and 130% growth in liquids production over 2019.

Key objectives of our 2020 budget are to:

- Increase liquids revenue to approximately 35% of total revenue in 2020 and approximately 50% in 2021. Liquids production is expected to achieve a year-end exit rate of approximately 9,000 bbls/d.
- Establish key oil infrastructure by constructing oil batteries at both Pipestone/Wembley (early Q2) and Progress (early Q4). Once commissioned, all four core areas will be capable of contributing free cash flow, providing the Corporation complete flexibility to allocate capital between our high-quality portfolio of light oil, condensate and natural gas Montney assets.
- Continue to be a unique Montney producer with a low-cost supply of natural gas, condensate and light oil through our owned and operated infrastructure with minimal midstream commitments.
- Retain financial flexibility and discipline by continuing to target a total debt to adjusted funds flow ratio of approximately two times.

Following the Corporation's light oil pool discovery announced September 3, 2019, Progress spending will be more prominent in 2020 than previously contemplated, with a modest reduction in spending planned for our other assets. Development of the Progress asset will include an innovative infrastructure plan, reconfiguring portions of our existing Valhalla pipeline system and using available gas processing capacity at Advantage's Glacier Gas Plant. These changes are expected to result in an optimized investment plan and a higher utilization of our 100% owned infrastructure processing capacity, contributing to enhanced natural gas and liquids cost efficiencies for the longer term.

2020 Capital Budget Summary[1]

	2020 Budget
Cash Used in Investing Activities [2] (millions)	$170 to $200
Average Production (boe/day)	45,000 to 47,500
Gas Production (mmcf/d)	234 to 245
Liquids Production (bbls/d)	6,000 to 6,700
Royalty Rate (%)	3% to 5%
Operating Expense ($/boe)	$2.50
Transportation Expense ($/boe)	$3.70
G&A/Finance Expense ($/boe)	$1.70

Notes:

(1) Forward-looking information. Refer to Advisory for cautionary statements regarding Advantage's budget including material assumptions and risk factors.

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

- Cash used in investing activities are expected to be allocated approximately 65% to drilling, completions and equipping, 35% to major facilities. Capital spending is expected to be highest in the first and third quarters of 2020 aligned with infrastructure construction timing.
- In light of the low Alberta gas storage levels, improved demand outlook and operations on the NGTL system which could sustain improved AECO prices, Advantage has the flexibility to redirect capital to our

prolific Glacier and Valhalla assets to increase natural gas production within a short cycle time. The Corporation also retains flexibility to reduce capital spending in the second half of 2020 in response to market conditions.
- Advantage's 2020 budget assumes annual natural gas prices of AECO $1.88/GJ, NYMEX US$2.42/mmbtu and oil prices of WTI US$56.58/bbl, and incorporates the Corporation's hedging and market diversification positions.

Operational Update

In October 2019, Advantage's first Pipestone/Wembley 12-25 well began producing intermittently at restricted rates, due to the ongoing commissioning of a midstream gas plant. The ramp-up of this midstream gas plant was slower than expected in the fourth quarter of 2019 and Advantage anticipates production will continue to experience interruptions through the first quarter of 2020 until our 100% owned Pipestone/Wembley oil battery is completed. Construction of this 5,000 bbl/d oil battery commenced during the fourth quarter of 2019 and is targeted for commissioning in April 2020. This battery will help to improve operational performance related to liquids through the midstream plant and accommodate increasing production as development continues.

In December 2019, a new Pipestone/Wembley four-well pad was completed. Average production from the first two wells began at type curve expectations; the remaining two wells are expected to begin production in the first quarter of 2020. An additional three-well pad which was drilled in the fourth quarter 2019 will be completed and begin producing after the first quarter of 2020.

The tie-in of the Progress asset to Advantage's existing Glacier pipeline system is expected to be completed in the first quarter of 2020 with a new 5,000 bbl/d oil battery targeted for commissioning in the fourth quarter of 2020. As an interim measure, Advantage will access approximately 2,000 bbls/d of processing capacity at a third-party oil battery during the second and third quarters of 2020.

During the fourth quarter of 2019, Advantage increased its natural gas production as AECO prices improved following the approval and implementation of operational changes (Temporary Service Protocol) on the NGTL system. As we expected, these changes reduced the erratic price swings and improved the AECO forward prices.

Looking Forward

Advantage's high quality Montney land holdings consisting of 210 net sections within our four core assets at Glacier, Valhalla, Pipestone/Wembley and Progress provides multi-decade development for natural gas, condensate and light oil. As we continue to execute on the Corporation's disciplined approach to developing these assets, we anticipate growing our adjusted funds flow per share, increasing free cash generation, and strengthening our netback margins to enhance economic returns and shareholder value. Our 2020 program will be a key step in moving all of our assets into the next phase of development maturation.

Advisory

The information in this press release contains certain forward-looking statements within the meaning of applicable securities laws relating to the Corporation's plans and other aspects of its anticipated future operations, management focus, strategies, financial, operating and production results and business opportunities. 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, the Corporation's estimated net capital expenditures for 2020, including the expected allocation and timing of such expenditures and the anticipated effect of such expenditures on revenue; the development focus of the 2020 capital budget and the anticipated timing thereof; the anticipated effect of net capital expenditures on liquids production, including the estimated amount of such production; expected focus and results to be derived from the 2020 capital budget, including, but not limited to, increasing annual liquids production and the anticipated amount thereof, diversifying the Corporation's revenue sources and developing additional operational and infrastructure capability and how this will be achieved; the expected amount by which revenues from liquids production will increase in 2020 and 2021 as a percentage of total revenue; the expected amount of average production in 2020, including the expected amount of gas production and liquids production; the estimated total debt to adjusted funds flow ratio for 2020; anticipated royalty rates, operating expense, transportation expense and G&A/finance expense for 2020; expectations that the owned Glacier Gas Plant has capacity to accommodate future growth and provide third party processing opportunities; the anticipated timing of wells being brought on production; drilling and development plans for 2020; anticipated disruptions to production while the oil battery at Pipestone/Wembley is being completed, the expected timing of *such completion and the anticipated effect of such battery on performance and production; anticipated timing of production from certain wells at Pipestone/Wembley; the expected timing of completion of commissioning an oil battery at Progress and the tie-in of the Progress asset to Advantage's existing Glacier pipeline system; resource development potential of the Corporation's assets; the Corporation's plans to continue to be a low-cost supplier of natural gas, condensate and light oil and to grow adjusted funds flow per share, increase free cash generation and strengthen netback margins; 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; risk and assumptions used in estimating the 2020 budget, including commodity prices, timing of expenditures and the focus of such expenditures, change from current expectations; risk that the Corporation does not achieve the anticipated increases to production and revenues expected from the 2020 capital budget; changes in commodity prices, currency exchange rates, net 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 infrastructure; 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 February 28, 2019 which is available at www.Sedar.com and www.advantageog.com.

With respect to forward-looking statements contained in this press release, 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, G&A and finance cost and transportation costs; frac stages per well; lateral lengths per well; well costs; expected annual production growth rate; availability of skilled labor; availability of drilling and related equipment; timing and amount of net capital expenditures; the expected impact of net capital expenditures on production and revenue; 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 its infrastructure projects; that Advantage's production and revenues 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, 2020 Advantage considered historical drilling, completion and production results for prior years and took into account the estimated impact on production of the Corporation's 2020 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 press release 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.*

The Corporation discloses several financial and performance measures that do not have any standardized meaning prescribed under International Financial Reporting Standards ("IFRS" or "GAAP"). These financial and performance measures include "net capital expenditures" which should not be considered as an alternative to "cash used in investing activities 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. Please see the Corporation's most recent Management's Discussion and Analysis, which is available at www.sedar.com and www.advantageog.com for additional information about these financial measures, including a reconciliation to the nearest GAAP measures.

Barrels of oil equivalent (boe) and thousand cubic feet of natural gas equivalent (mcfe) may be misleading, particularly if used in isolation. Boe and mcfe 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 mcfe 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.

The following abbreviations used in this press release have the meanings set forth below.

bbl	*barrel*
bbl/d	*barrel per day*
bbls/d	*barrels per day*
bbls/mmcf	*Barrels per million cubic feet*
boe	*barrels of oil equivalent of natural gas, on the basis of one barrel of oil or natural gas liquids for six thousand cubic feet of natural gas*
boe/d	*barrels of oil equivalent per day*
GJ	*gigajoule*
mcf	*thousand cubic feet*
mcfe	*thousand cubic feet equivalent on the basis of six thousand cubic feet of natural gas for one barrel of oil or natural gas liquids*
mmcf/d	*million cubic feet per day*
mmcfe/d	*million cubic feet equivalent per day*

SOURCE Advantage Oil & Gas Ltd.

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