

Advantage Announces 2018 Year-End Reserves & Operations Update

221% Production Replacement Led By 22% Increase in Liquids Reserves (TSX: AAV)

CALGARY, Feb. 11, 2019 /CNW/ - Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to report its 2018 reserves and an operational update on the Corporation's liquids development plan.

Advantage's 2018 proved plus probable ("2P") reserve additions replaced 221% of annual production through drilling successes in all of the Corporation's land blocks and through positive technical revisions reflecting continued improvements in production performance. 2P reserves increased 4.4% to 432.2 million boe (2.59 Tcfe) at a finding and development cost ("F&D") of \$8.04/boe (\$1.34/mcfe) including the change in future development capital ("FDC"). Advantage's focus on liquids resulted in a 33% increase in proved developed producing ("PDP") liquids reserves, and recorded its first reserve bookings at our ultra-rich Pipestone/Wembley block.

Fourth quarter 2018 operating results included record production of 45,686 boe/d and a 61% increase in liquids production to 1,974 bbls/d. Liquids contributed 15% of total 2018 revenue, and marketing initiatives generated \$59 million (includes realized gains on derivatives and revenue less transportation realized from physical sales arrangements involving markets outside of AECO). Adjusted funds flow^(a) for 2018 was \$150 million, and year-end total debt^(a) was \$273 million, resulting in a debt-to-adjusted funds flow ratio of 1.8. Advantage's low cost structure, high rate of liquids growth, and strong balance sheet establish a solid platform for the Corporation to continue advancing its multi-year liquids development plan (refer to Advantage press release dated November 1, 2018).

Major facilities expenditures in 2018 included the Glacier gas plant expansion to 400 mmcf/d and 6,800 bbls/d of liquids, and the substantial completion of a new compression and liquids handling hub at Valhalla. In addition, certain liquids-rich well operations and capital expenditures that were previously planned for January 2019 were accelerated to December 2018 to capitalize on temporary service discounts and reinforce our production outlook.

2018 Reserves Achievements:

- Replaced 225% and 221% of 2018 annual production on a Proved ("1P") and 2P reserves basis, respectively.
- PDP and 2P liquids reserves increased 33% and 22% to 6.0 million barrels and 38.8 million barrels, respectively. This included the first reserves bookings assigned at Pipestone/Wembley.
- PDP reserves increased by 9% at a F&D cost of \$9.04/boe (\$1.51/mcfe). F&D includes \$63 million spent on the Glacier gas plant expansion and \$27 million on the Valhalla liquids hub.
- 1P reserves increased by 6% at a F&D cost of \$8.33/boe (\$1.39/mcfe) including change in FDC.
- 2P reserves increased by 4.4% to 432.2 million boe (2.59 Tcfe) at an F&D cost of \$8.04/boe (\$1.34/mcfe) including change in FDC.
- The three year average PDP and 2P F&D cost is \$7.31/boe (\$1.22/mcfe) and \$3.88/boe (\$0.65/mcfe) including change in FDC, respectively.
- The 2018 PDP and 2P recycle ratios are 1.4 and 1.5, respectively. The three year average PDP and 2P recycle ratios are 1.8 and 3.4, respectively.
- Positive technical revisions from improved well production performance accounted for 21% of 2P reserves additions. Strong well performance has contributed to a low annual decline rate of 26%.
- Approximately 5% of Advantage's condensate rich Greater Pipestone lands and 17% of our liquids rich Glacier lands have reserves booked.

- Achieved a 3 year capital efficiency^(a) of \$13,400/boe/d. Advantage's 2018 annual capital efficiency^(a) of \$15,700/boe/d includes \$90 million for completing major facilities projects. The capital efficiency^(a) is \$8,700/boe/d when major facility expenditures are excluded.

2018 Operating & Financial Information

(References to 2018 operational and financial results are estimates only and have not been reviewed or audited by our independent auditor. Advantage is expected to release its fourth quarter and year-end results after markets close on February 28, 2019)

	Q4 2018E	2018E
Production	45,686 boe/d (274.1 mmcfe/d)	41,651 boe/d (249.9 mmcfe/d)
Operating netback (\$/boe) ^{(a)(1)}	\$12.24	\$11.22
Cash provided by operating activities (\$ millions)	\$45	\$160
Adjusted Funds Flow (\$ millions) ^{(a)(2)}	\$46	\$150
Cash used in investing activities (\$ millions)	\$51	\$214
Net Capital Expenditures (\$ millions) ^{(a)(3)}	\$52	\$204
Total Debt (\$ millions) ^(a)	\$273	\$273
Total Debt to Adjusted Funds Flow ^(a)		1.8

- (1) Operating netback is comprised of sales revenue and realized gains on derivatives, net of expenses resulting from field operations, including royalty expense, operating expense and transportation expense.
- (2) Adjusted funds flow excludes changes in non-cash working capital and expenditures on decommissioning liabilities.
- (3) Net capital expenditures include total capital expenditures related to property, plant and equipment and exploration and evaluation assets incurred.

- Achieved annual 2018 cash costs including royalty costs of \$0.18/boe, operating costs of \$1.80/boe, transportation expenses of \$3.36/boe, general and administrative costs of \$0.60/boe and finance costs of \$0.72/boe.
- Annual 2018 cash provided by operating activities of \$160 million and adjusted funds flow^(a) of \$150 million was supported by \$59 million market diversification gains (includes realized gains on derivatives and revenue less transportation realized from physical sales arrangements involving markets outside of AECO). Advantage's revenue exposure to AECO daily prices was 22% in 2018 and is anticipated to be 20% in 2019.
- Cash used in investing activities was \$214 million, including \$204 million for 2018 net capital expenditures^(a). This included a \$29 million acceleration of 2019 planned capital into 2018. Accordingly, the 2019 capital budget will be reduced by \$29 million.

2018 Additional Reserves Commentary and Analysis

Sproule Associates Ltd. ("Sproule") was engaged as an independent qualified reserve evaluator to evaluate Advantage's year-end reserves as of December 31, 2018 ("Sproule 2018 Reserves Report") in accordance with National Instrument 51-101 ("NI 51-101") and the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook"). Reserves are stated on a gross (before royalties) working interest basis unless otherwise indicated. Additional details are provided in the accompanying tables to this release and additional reserve information as required under NI 51-101 will be included in our Annual Information Form which will be filed on SEDAR on February 28, 2019. All references to 2018 operational and financial results are estimates only and have not been reviewed or audited by our independent auditor. Advantage is expected to release its fourth quarter and year-end results after markets close on February 28, 2019.

Advantage's 2018 reserves additions include the first liquids-rich reserves bookings at Pipestone/Wembley along with the continued recognition of drilling success and improved well performance at Glacier and Valhalla.

The Corporation's Pipestone/Wembley land block consists of 31 net sections (19,840 acres) and is located in a prolific condensate fairway where significant industry drilling successes in multiple layers has occurred. In 2018, Advantage's first well in this land block was tested at average flow rate of 1,312 boe/d consisting of 2.9 mmcf/d of gas and 819 bbls/d of condensate and NGLs. This well is expected to be on-production by the fourth quarter of 2019. Advantage booked 12 locations in 2018 totaling 9.9 million boe of 2P reserves.

Drilling at Glacier and Valhalla in 2018 was focused on the liquids-rich Middle Montney. Continued strong production performance resulted in 6.9 million boe of positive 2P technical revisions across the properties. At Glacier, our 2018 completed wells are out-performing Advantage's average well type curve by 35% after more than 150 days of production. At Valhalla, our new compressor station and liquids hub has been commissioned. The facility will increase drawdown of existing wells and provide capacity for future liquids-rich wells, including seven wells that make up our current winter Valhalla program.

Additional comments pertaining to each of the reserves categories:

- PDP reserves increased 9% due to the recognition of 20 new Glacier & Valhalla wells that were brought on production through 2018 and higher reserves assignments on historical producing wells due to stronger performance than previously forecast.
- 1P reserves increased 6% resulting from technical revisions which accounted for 43% of the 1P reserves additions. The remaining reserves additions resulted from the conversion of probable locations to the proved reserves category and the booking of new proven undeveloped locations.
- 2P reserves increased 4.4% through the addition of 41 new wells and locations. A total of 356 undeveloped locations are booked in the Sproule 2018 Reserves Report. Management estimates in-excess of 1,200 total Montney locations remain undrilled across all of our land blocks.
- 2P FDC increased by \$66 million to \$1.7 billion as the reduction in facilities capital expenditures in the Sproule 2018 Reserves Report were offset by the cost of booking additional future well locations.

Since Advantage's Montney development program began in 2008, 2P reserves have grown at an average compound annual growth rate of 28% per year to 2.6 Tcfe (432 million boe). Advantage's 1P Net Present Value is \$1.5 billion, and 2P Net Present Value is \$2.2 billion as at December 31, 2018 (10% discount factor on a pre-tax basis).

The reserves by category and year over year changes compared to 2017 are indicated below:

Reserve Category	Light & Medium Crude Oil Million bbls	Conventional Natural Gas Tcf	Natural Gas Liquids Million bbls	Total Gas Equivalent Tcfe	% Change from 2017
PDP	-	0.49	5.97	0.53	9.1%
1P	3.01	1.78	25.88	1.95	6.2%
2P	4.40	2.36	34.42	2.59	4.4%

The total number of 2P future well locations booked in the Sproule 2018 Reserves Report are illustrated in the following table:

Sproule Number of Gross Horizontal Wells Booked			
	Developed	Undeveloped	Total
Upper	119	135	254
Middle	45	135	180
Lower	55	86	141
Total	219	356	575

Advantage's 1P reserves life index is 20 years and its 2P reserves life index is 26 years based on the Corporation's average fourth quarter 2018 production rate of approximately 45,686 boe/d.

Looking Forward

2019 Capital Spending Revised With More Flexibility Available

Advantage's 2019 net capital expenditures^(a) guidance range is reduced to \$185 to \$215 million from \$210 to \$240 million as a result of the accelerated spending discussed earlier. No impact to our 2019 production guidance range of 43,500 to 46,500 boe/d (261 mmcf to 279 mmcf/d) is anticipated.

Advantage is planning to invest approximately \$65 million through the first quarter of 2019 which is expected to substantially provide the well productivity to achieve our 2019 annual production guidance. Investment for the remainder of 2019 will be reviewed during the second quarter of 2019. The Corporation has identified additional capital projects of up to \$100 million which could be deferred from our 2019 plan with minimal 2019 production impact. Capital deferrals will be prioritized to minimize impact on the highest-return liquids projects. Advantage will remain diligent in monitoring commodity and industry trends and respond accordingly to retain a strong balance sheet while advancing our multi-year strategy to increase liquids development.

RESERVES SUMMARY TABLES

Company Gross (before royalties) Working Interest Reserves Summary as at December 31, 2018

	Light & Medium Crude Oil (mdbl)	Conventional Natural Gas (mmcf)	Natural Gas Liquids (mdbl)	Total Oil Equivalent (mboe)
Proved				
Developed Producing	-	490,850	5,974	87,782
Developed Non-producing	266	52,097	871	9,821
Undeveloped	2,745	1,234,075	19,038	227,462
Total Proved	3,011	1,777,022	25,884	325,065
Probable	1,393	583,135	8,539	107,121
Total Proved + Probable	4,404	2,360,157	34,423	432,186

(1) Tables may not add due to rounding.

Company Net Present Value of Future Net Revenue using Sproule price and cost forecasts ⁽¹⁾⁽²⁾⁽³⁾ (\$000)

	Before Income Taxes Discounted at		
	0%	10%	15%
Proved			
Developed Producing	1,206,385	778,999	653,677
Developed Non-producing	167,849	86,014	68,431
Undeveloped	2,712,159	652,328	336,103
Total Proved	4,086,393	1,517,341	1,058,212
Probable	2,044,535	651,846	441,686
Total Proved + Probable	6,130,928	2,169,187	1,499,898

(1) Advantage's light and medium oil, solution gas, conventional natural gas and natural gas liquid reserves were

evaluated using Sproule's product price forecast effective December 31, 2018 prior to the provision for income taxes, interests, debt services charges and general and administrative expenses. It should not be assumed that the discounted future net revenue estimated by Sproule represents the fair market value of the reserves.

- (2) Assumes that development of reserves will occur, without regard to the likely availability to the Corporation of funding required for that development.
- (3) Future Net Revenue incorporates Managements' estimates of required abandonment and reclamation costs, including expected timing such costs will be incurred, associated with all wells, facilities and infrastructure. No abandonment and reclamation costs have been excluded.
- (4) Tables may not add due to rounding.

Sproule Price Forecasts

The net present value of future net revenue at December 31, 2018 was based upon oil, natural gas and natural gas liquids pricing assumptions prepared by Sproule effective December 31, 2018. These forecasts are adjusted for reserves quality, transportation charges and the provision of any applicable sales contracts. The price assumptions used over the next seven years are summarized in the table below:

Year	Canadian Light Sweet Crude 40o API (\$Cdn/bbl)	Alberta AECO-C Natural Gas (\$Cdn/mmbtu)	Henry Hub Natural Gas (\$US/mmbtu)	Edmonton Propane (\$Cdn/bbl)	Edmonton Butane (\$Cdn/bbl)	Edmonton Pentanes Plus (\$Cdn/bbl)	Exchange Rate (\$US/\$Cdn)
2019	75.27	1.95	3.00	30.27	40.91	75.32	0.77
2020	77.89	2.44	3.25	34.51	50.25	80.00	0.80
2021	82.25	3.00	3.50	38.15	56.88	83.75	0.80
2022	84.79	3.21	3.57	39.64	58.01	85.50	0.80
2023	87.39	3.30	3.64	40.62	59.17	87.29	0.80
2024	89.14	3.39	3.71	41.62	60.36	89.11	0.80
2025	90.92	3.49	3.79	42.64	61.56	90.96	0.80

Company Gross (before royalties) Working Interest Reserves Reconciliation ⁽¹⁾:

Proved	Light & Medium Crude Oil (mdbl)	Conventional Natural Gas (mmcf)	Natural Gas Liquids (mdbl)	Total Oil Equivalent (mboe)
Opening balance Dec. 31, 2017	4	1,698,002	23,057	306,062
Extensions	3,011	37,170	1,956	11,162
Infill Drilling	-	66,715	1,304	12,423
Infill Future Offset	-	-	-	-
Improved recovery	-	-	-	-
Technical revisions	(4)	85,997	287	14,616
Discoveries	-	-	-	-
Acquisitions	-	-	-	-
Economic factors	-	(22,907)	(176)	(3,994)
Production	-	(87,955)	(544)	(15,204)
Closing balance at Dec. 31, 2018	3,011	1,777,022	25,884	325,065

Light & Medium Crude Oil	Conventional Natural Gas	Natural Gas Liquids	Total Oil Equivalent
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Proved Plus Probable	(mdbl)	(mmcf)	(mdbl)	(mboe)
Opening balance Dec. 31, 2017	6	2,292,273	31,768	413,819
Extensions	4,404	51,000	2,755	15,659
Infill Drilling	-	85,127	1,644	15,832
Infill Future Offset	-	-	-	-
Improved recovery	-	-	-	-
Technical revisions	(5)	47,473	(1,009)	6,897
Discoveries	-	-	-	-
Acquisitions	-	-	-	-
Economic factors	-	(27,761)	(191)	(4,817)
Production	-	(87,955)	(544)	(15,204)
Closing balance at Dec. 31, 2018	4,404	2,360,157	34,423	432,186

- (1) Technical revisions accounted for 43% of the total proved additions and 21% of the total proved plus probable additions. Percentage of each category calculated by dividing the technical revisions in the category by the total reserve additions in the same category before production.
- (2) Tables may not add due to rounding.

Company Finding & Development Costs ("F&D")

Company 2018 F&D Costs – Gross (before royalties) Working Interest Reserves including Future Development Capital ⁽¹⁾⁽²⁾⁽³⁾

	Proved	Proved + Probable
Capital expenditures (\$000)	203,834	203,834
Net change in Future Development Capital (\$000)	81,206	66,049
Total capital (\$000)	285,040	269,883
Total mboe, end of year	325,065	432,186
Total mboe, beginning of year	306,062	413,819
Production, mboe	15,204	15,204
Reserve additions, mboe	34,207	33,571
2018 F&D costs (\$/boe)	\$8.33	\$8.04
2017 F&D costs (\$/boe)	\$5.88	\$5.01
Three-year average F&D costs (\$/boe)	\$4.88	\$3.88

- (1) F&D costs are calculated by dividing total capital by reserve additions during the applicable period. Total capital includes both capital expenditures incurred and changes in FDC required to bring the proved undeveloped and probable undeveloped reserves to production during the applicable period. Reserves additions are calculated as the change in reserves from the beginning to the ending of the applicable period excluding production.
- (2) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated FDC generally will not reflect total finding and development costs related to reserves additions for that year. Changes in forecast FDC occur annually as a result of development activities, acquisition and disposition activities and capital cost estimates that reflect Sproule's best estimate of what it will cost to bring the proved undeveloped and probable undeveloped reserves on production.
- (3) The change in FDC is primarily from incremental undeveloped locations.

Advisory

The information in this press release contains certain forward-looking statements, including within the meaning of applicable securities laws. 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", "demonstrate", "expect", "may", "can", "will", "project", "predict", "potential", "target", "intend", "could", "might", "should", "guidance", "believe", "would" and similar expressions and include statements relating to, among other things, Advantage's strategy and plans, expectation with respect to its liquid development, the benefits derived from accelerating certain well operations, market diversification and low cost structure; the timing of when wells will be placed on production; the benefits associated with Advantage's infrastructure; Advantage's belief that its Glacier development will allow for production optimization; the expected timing of release of Advantage's 2018 financial and operational results; estimated number of drilling locations; Advantage's estimated fourth quarter and full year 2018 financial and operating results including production, revenue, royalties, operating costs, transportation cost, operating netback, adjusted funds flow, net capital expenditures and total debt; Advantage's 2019 anticipated revenue exposure to AECO daily natural gas prices; Advantage's anticipated 2019 net capital expenditures; and Advantage's anticipated amount of investment in the first quarter of 2019 and the amount of capital projects that could be deferred from it's 2019 plan. In addition, statements relating to "reserves" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future. The recovery and reserve estimates of Advantage's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Advantage's actual decisions, activities, results, performance or achievement could differ materially from those expressed in, or implied by, such forward-looking statements and accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur or, if any of them do, what benefits that Advantage will derive from them.

These statements involve substantial known and unknown risks and uncertainties, certain of which are beyond Advantage's control, including, but not limited to: changes in general economic, market and business conditions; industry conditions; actions by governmental or regulatory authorities including increasing taxes and changes in investment or other regulations; changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry; the effect of acquisitions; Advantage's success at acquisition, exploitation and development of reserves; unexpected drilling results; changes in commodity prices, currency exchange rates, capital expenditures, reserves or reserves estimates and debt service requirements; the occurrence of unexpected events involved in the exploration for, and the operation and development of, oil and gas properties, including hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; changes or fluctuations in production levels; delays in anticipated timing of drilling and completion of wells; individual well productivity; competition from other producers; the lack of availability of qualified personnel or management; credit risk; changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; our ability to comply with current and future environmental or other laws; stock market volatility and market valuations; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions; geological, technical, drilling and processing problems and other difficulties in producing petroleum reserves; ability to obtain required approvals of regulatory authorities; and ability to access sufficient capital from internal and external sources. Many of these risks and uncertainties and additional risk factors are described in the Corporation's Annual Information Form which is available at www.sedar.com ("SEDAR") and www.advantageog.com. Readers are also referred to risk factors described in other documents Advantage files with Canadian securities authorities.

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

Management has included the above summary of assumptions and risks related to forward-looking information above and in its continuous disclosure filings on SEDAR in order to provide shareholders with a more complete perspective on Advantage's future operations and such information may not be appropriate for other purposes. Advantage's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements

and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Advantage will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this news 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.

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.

This press release contains a number of oil and gas metrics, including F&D, operating netback, recycle ratio, reserve replacement and reserve life index, 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. Operating netback is calculated by adding natural gas and liquids sales with realized gains/losses on derivatives and subtracting royalty expense, operating expense and transportation expense. Recycle ratio is calculated by dividing Advantage's fourth quarter operating netback by the calculated F&D of the applicable year and expressed as a ratio. Reserve replacement is calculated by dividing reserves net volume additions by the current annual production and expressed as a percentage. Reserve life index is calculated by dividing the total volume of reserves by the fourth quarter production rate and expressed in years. Reserves per share is calculated as the total volume of reserves divided by the number of common shares issued and outstanding at year end.

The recovery and reserve estimates of reserves provided in this news release are estimates only, and there is no guarantee that the estimated reserves will be recovered. Actual reserves may eventually prove to be greater than, or less than, the estimates provided herein.

This press release discloses drilling locations in three categories: (i) proved locations; (ii) probable locations; and (iii) unbooked locations. Proved locations and probable locations are derived from the Sproule Associates Limited reserves evaluation effective December 31, 2018 and account for drilling locations that have associated proved and/or probable reserves, as applicable. Unbooked locations are internal estimates based on the Corporation's prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves or resources. Of the 1,200 total drilling locations identified herein, 327 are proved locations, 29 are probable locations and 844 are unbooked locations. Unbooked locations have been identified by management as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that the Corporation will drill all unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which we actually drill wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been de-risked by drilling existing wells in relative close proximity to such unbooked drilling locations, other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

References in this press release to short-term production rates are useful in confirming the presence of hydrocarbons, however such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long-term performance, or of ultimate recovery. Additionally, some 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.

Non-GAAP Measures

The Corporation discloses several financial and performance measures in this press release that do not have any standardized meaning prescribed under GAAP. These financial and performance measures include "net capital expenditures", "adjusted funds flow", "operating netback", "total debt" and "capital efficiency", which should not be considered as alternatives to, or more meaningful than "cash provided by operating activities", "cash used in investing activities", or "bank indebtedness" presented within the consolidated financial statements 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

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. A reconciliation between net capital expenditures and the nearest measure calculated in accordance with GAAP, cash used in investing activities, is provided below:

(\$000)	Year ended December 31	
	2018	2017
Cash used in investing activities	\$ 213,734	\$ 228,430
Changes in non-cash working capital	(12,648)	17,098
Capitalized stock-based compensation	2,748	3,245
Net capital expenditures⁽¹⁾	\$ 203,834	\$ 248,773

(1) Includes cash and non-cash capitalized stock-based compensation.

Adjusted Funds Flow

The Corporation considers adjusted funds flow to be a useful measure of Advantage's ability to generate cash from the production of natural gas and liquids, which may be used to settle outstanding debt and obligations, and to support future capital expenditures plans. Changes in non-cash working capital and expenditures on decommissioning liabilities are excluded from adjusted funds flow as they may vary significantly between periods and are not considered to be indicative of the Corporation's operating performance as they are a function of the timeliness of collecting receivables or paying payables. A reconciliation between adjusted funds flow and the nearest measure calculated in accordance with GAAP, cash provided by operating activities, is provided below:

(\$000s)	Year ended December 31	
	2018	2017
Cash provided by operating activities	\$ 160,162	\$ 186,401
Expenditure on decommissioning liability	1,782	1,190
Changes in non-cash working capital	(644)	2,542
Finance expense ⁽¹⁾	(10,922)	(6,931)
Adjusted funds flow	\$ 150,378	\$ 183,202

(1) Finance expense excludes non-cash accretion expense and unrealized gains on foreign exchange.

Operating Netback

Operating netback is comprised of sales revenue and realized gains of derivatives, net of expenses resulting from field

operations, including royalty expense, operating expense and transportation expense. Operating netback provides Management and users with a measure to compare the profitability of field operations between companies, development areas and specific wells.

Total Debt

Total debt is comprised of bank indebtedness and working capital deficit. Total debt provides Management and users with a measure of the Corporation's indebtedness and expected settlement of net liabilities in the next year. A detailed calculation of total debt is provided below:

(\$000)		December 31, 2018
Bank indebtedness	\$	270,918
Working capital deficit		1,912
Total debt	\$	272,830

Capital Efficiency

Three-year and single year capital efficiency is calculated by dividing total capital development costs for oil and gas activities including drilling, completion, facilities, infrastructure, office and capitalized general and administrative costs (excluding abandonment and reclamation costs, exploration and evaluation costs, and acquisition and disposition related costs and proceeds) by the average production additions of the applicable year to replace base production declines and deliver production growth targets, expressed in \$/boe/d. Capital efficiency is considered by management to be a useful performance measure as a common metric used to evaluate the efficiency with which capital activity is allocated to achieve production additions.

Certain financial and operating results included in this news release for the fourth quarter and year-ended 2018 are based on unaudited estimated results. These estimated results are subject to change upon completion of the Corporation's audited financial statements for the year ended December 31, 2018, and changes could be material. Advantage anticipates filing its audited financial statements and related management's discussion and analysis for the year ended December 31, 2018 on SEDAR on February 28, 2019.

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

<i>bbl</i>	<i>one barrel</i>
<i>bbls</i>	<i>barrels</i>
<i>bbls/d</i>	<i>barrels per day</i>
<i>boe</i>	<i>barrels of oil equivalent of natural gas, on the basis of one barrel of oil or NGLs for six thousand cubic feet of natural gas</i>
<i>boe/d</i>	<i>barrels of oil equivalent of natural gas per day</i>
<i>mdbl</i>	<i>thousand barrels</i>
<i>mboe</i>	<i>thousand barrels of oil equivalent of natural gas</i>
<i>mcf</i>	<i>thousand cubic feet</i>
<i>mcfe</i>	<i>thousand cubic feet equivalent on the basis of six thousand cubic feet of natural gas for one barrel of oil or NGLs</i>
<i>mmcf</i>	<i>million cubic feet</i>
<i>mmbtu</i>	<i>million British thermal units</i>
<i>mmcf/d</i>	<i>million cubic feet per day</i>
<i>mmcfe/d</i>	<i>million cubic feet equivalent per day</i>
<i>tcf</i>	<i>trillion cubic feet</i>
<i>tcfe</i>	<i>trillion cubic feet equivalent</i>

a) *Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please*

see Advisory for reconciliations to the nearest measure calculated in accordance with GAAP.

SOURCE Advantage Oil & Gas Ltd.

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<https://advantageog.mediaroom.com/2019-02-11-Advantage-Announces-2018-Year-End-Reserves-Operations-Update>