Advantage Announces Fourth Quarter and Year End 2018 Operating & Financial Results

Liquids Growth, Market Diversification &
Operational Excellence

(TSX: AAV)

CALGARY, Feb. 28, 2019 /CNW/ - Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to announce its 2018 results, culminating in increased liquids development, successful revenue diversification, and operational excellence. These accomplishments, combined with an emphasis on capital and financial discipline, will continue to strengthen the Corporation's solid business and advance its multi-year liquids development plan.

Highlights from our 2018 accomplishments include:

- Record annual production of 41,651 boe/d including a 22% increase in liquids
- $59 million gain through marketing diversification initiatives
- Low operating expenses of $1.80/boe
- Year-end total debt[(a)] to adjusted funds flow[(a)] ratio of 1.8
- 3 year capital efficiency[(a)] of $13,400/boe/d
- Increased Montney holdings by acquiring 17 net sections (10,880 acres) of complimentary lands for $2 million resulting in total land ownership of 206 net sections (131,840 acres)
- 30% improvement in the liquids-rich Montney productivity per well through frac design enhancements
- Completed Glacier plant expansion and new Valhalla liquids hub to accommodate liquids development strategy
- Increased CO_2e sequestration credits by 59% to 90,500 tonnes
- Participated in several industry advocacy initiatives and continued to explore marketing opportunities

We are proud of our Team's 2018 achievements and thank Advantage's Board of Directors and our shareholders for their support. We look forward to reporting on our progress as our Team continues to advance Advantage's multi-year liquids development plan.

2018 Operating and Financial Results Summary

- Record annual and fourth quarter production of 41,651 boe/d (249.9 mmcfe/d) and 45,686 boe/d (274.1 mmcfe/d), respectively, representing increases of 6% and 12% compared to the same periods of 2017.
- Annual liquids production increased 22% to 1,491 bbls/d and generated a 40% increase in liquids revenue over 2017.
- Achieved low annual 2018 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.
- Year-end total debt[(a)] was $273 million resulting in a total debt[(a)] to adjusted funds flow[(a)] ratio of 1.8 and an undrawn bank credit facility of $120 million.

Strengthened Market Diversification and Hedging

On November 1, 2018, Advantage began receiving Midwest U.S. prices on 20,000 mcf/d, increasing to 40,000 mcf/d in April 2019. This arrangement complements our Dawn, Ontario market where we delivered 52,700 mcf/d in 2018.

For 2019, Advantage has fixed price hedges on 45% of our estimated natural gas production at an average price of Cdn $2.46/mcf, with 29% of production remaining exposed to AECO. In the summer when prices are anticipated to be more volatile, 52% of estimated natural gas production is hedged at an average price of Cdn $2.13/mcf, with only 19% of production remaining exposed to AECO.

Looking Forward

As previously communicated (see Advantage press release February 11, 2019) the Corporation's 2019 net capital expenditures[(a)] guidance range was reduced to $185 to $215 million from $210 to $240 million as a result of accelerated spending. Our 2019 production guidance range remains between 43,500 and 46,500 boe/d (261 and 279 mmcfe/d).

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. Liquids production is forecast to begin increasing through the second quarter as we tie-in new wells at east Glacier and Valhalla. Production from our Pipestone/Wembley asset is targeted to be brought on-stream during the third quarter when third party processing capacity is available.

Investment for the remainder of 2019 will be reviewed during the second quarter of 2019. The Corporation has identified 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.

2018 Operating and Financial Summaries

Financial Highlights ($000, except as otherwise indicated)	Three months ended December 31 2018	Three months ended December 31 2017	Year ended December 31 2018	Year ended December 31 2017
Financial Statement Highlights				
Sales including realized hedging [3]	**$ 73,979**	$ 65,779	**$ 250,604**	$ 259,611
Net income and comprehensive income	**$ 25,162**	$ 21,425	**$ 11,119**	$ 95,039
per basic share[2]	**$ 0.14**	$ 0.12	**$ 0.06**	$ 0.51
Cash provided by operating activities	**$ 44,790**	$ 29,848	**$ 160,162**	$ 186,401
Cash provided by financing activities	**$ 8,576**	$ 50,659	**$ 53,015**	$ 48,945
Cash used in investing activities	**$ 50,723**	$ 73,591	**$ 213,734**	$ 228,430
Basic weighted average shares (000)	**185,942**	185,963	**186,040**	185,641
Other Financial Highlights				
Adjusted funds flow[1]	**$ 46,301**	$ 43,883	**$ 150,378**	$ 183,202
per mcfe	**$ 1.84**	$ 1.94	**$ 1.65**	$ 2.13
per basic share [2]	**$ 0.25**	$ 0.24	**$ 0.81**	$ 0.99
Net capital expenditures [1]	**$ 52,000**	$ 73,723	**$ 203,834**	$ 248,774
Working capital deficit	**$ 1,912**	$ 13,808	**$ 1,912**	$ 13,808
Bank indebtedness	**$ 270,918**	$ 208,978	**$ 270,918**	$ 208,978
Total debt [1]	**$ 272,830**	$ 222,786	**$ 272,830**	$ 222,786

(1) Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".
(2) Based on basic weighted average shares outstanding.
(3) Excludes net sales of natural gas purchased from third parties.

Operating Highlights	Three months ended December 31 2018	Three months ended December 31 2017	Year ended December 31 2018	Year ended December 31 2017
Operating				
Daily Production				
Natural gas (mcf/d)	**262,269**	237,780	**240,959**	228,583
Liquids (bbls/d)	**1,974**	1,227	**1,491**	1,218
Total mcfe/d	**274,113**	245,142	**249,905**	235,891
Total boe/d	**45,686**	40,857	**41,651**	39,315
Average prices (including realized hedging)				
Natural gas ($/mcf) [2]	**$ 2.70**	$ 2.69	**$ 2.47**	$ 2.82
Liquids ($/bbl)	**$ 49.23**	$ 60.48	**$ 62.12**	$ 54.28
Operating Netback ($/mcfe)				
Sales of natural gas and liquids from production	**$ 2.81**	$ 2.38	**$ 2.44**	$ 2.69
Net sales of natural gas purchased from third parties[1]	**-**	-	**0.01**	-
Realized gains on derivatives	**0.12**	0.53	**0.31**	0.32
Royalty expense	**(0.07)**	(0.07)	**(0.03)**	(0.07)
Operating expense	**(0.29)**	(0.26)	**(0.30)**	(0.25)
Transportation expense	**(0.53)**	(0.50)	**(0.56)**	(0.40)
Operating netback[1]	**$ 2.04**	$ 2.08	**$ 1.87**	$ 2.29

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

(2) Excludes net sales of natural gas purchased from third parties.

The Corporation's audited consolidated financial statements for the fiscal year endedDecember 31, 2018 together with the notes thereto, and Management's Discussion and Analysis for the year ended December 31, 2018 have been filed on SEDAR and are available on the Corporation's website at http://www.advantageog.com/investors/financial-reports/financial-reports-2018. The Corporation's audited consolidated financial statements for the fiscal year ended December 31, 2017 are also available on the Corporation's website via the same webpage. Upon request, Advantage will provide a hard copy of any financial reports free of charge.

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, expectations generally and with respect to its liquid development, the corporation's hedging activities; the terms of the corporation's derivative contracts; the benefits derived from accelerating certain well operations, market diversification and low cost structure; the capital expenditure acceleration is not anticipated to impact 2019 production guidance; the anticipated timing of when production will increase at east Glacier and Valhalla and the timing of when production from ourPipestone/Wembley assets is to be brought on-stream; Advantage's 2019 anticipated revenue exposure to AECO daily natural gas prices; Advantage's anticipated amount of investment in the first quarter of 2019 and the benefits to be derived therefrom; timing to determine investment for the remainder of 2019; the amount of capital projects that could be deferred from the 2019 plan. 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; 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; 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 (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.

This press release contains a number of oil and gas metrics, including operating netback, 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.

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", "3 year capital efficiency" and "net sales of natural gas purchased from third parties", 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 "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:

	Year ended December 31	
($000)	**2018**	**2017**
Cash used in investing activities	**$ 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:

	Year ended December 31	
($000s)	**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.

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**	**December 31, 2017**
Bank indebtedness	$ 270,918	$ 208,978
Working capital deficit	1,912	13,808
Total debt	**$ 272,830**	**$ 222,786**

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.

Net Sales of Natural Gas Purchased from Third Parties

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 related for performance purposes.

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

bbl	*one barrel*
bbls	*barrels*

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

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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