Advantage Provides Second Quarter 2019 Operational Update

Increased Liquids Production and Market Diversification Gains Deliver Solid Adjusted Funds Flow

(TSX: AAV)

CALGARY, July 8, 2019 /CNW/ - Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to provide an operational update which includes solid second quarter 2019 results driven by higher than planned liquids production and strong market diversification gains.

Liquids production during the quarter increased 142% year over year to 2,580 bbls/d, primarily from bringing on two net condensate-rich middle-Montney wells at east Glacier. These wells averaged 84 bbls/mmcf during initial production. June liquids production exceeded 2,700 bbls/d.

Marketing gains were $16 million in the second quarter of 2019, including $7 million from long-term market diversification gains (outside of AECO) and $9 million from hedging gains. In June, Advantage further strengthened its market diversification portfolio by adding a total of 76 mmcf/d of firm NGTL capacity to Empress, which begins in November 2020 and increases in 2021. With this additional service, Advantage's exposure to AECO is expected to be negligible by 2021 based on our current production outlook.

(References to second quarter 2019 operational and financial results are estimates only and have not been reviewed or audited by our independent auditor. Advantage expects to release its second quarter results after markets close on or about August 1, 2019.)

Operational Update

Total production for the quarter was 43,000 boe/d, despite proactively shutting-in an average of 5,000 boe/d of dry gas during periods of extremely low AECO pricing, as previously communicated (see Advantage Q1 press release dated May 2, 2019). On average, 30 mmcf/d of AECO-exposed dry gas was taken off-line over the quarter. As a result, gas sold at AECO accounted for only 15% of total production in the second quarter.

Capital spending was $20 million in the second quarter, focused on early Wembley facilities construction, and facilities work remaining from our first quarter program including the full commissioning of the Valhalla liquids hub (2,000 bbls/d wellhead liquids capacity).

During the second quarter, liquids production increased primarily due to two new condensate-rich east Glacier wells, as well as two new condensate-rich Valhalla wells that were brought on production at restricted rates. At the end of the quarter, there were 5 condensate-rich wells drilled but awaiting completion at Valhalla, and 8 drilled and completed wells (6 of which are condensate-rich) awaiting tie-in at Glacier. All these wells are expected to be brought on production through the third quarter.

In September 2019, Advantage's previously announced 12-25 Pipestone/Wembley well (see Advantage Q1 press release dated March 5, 2018) is expected to be brought on production in conjunction with the planned start-up of the new Tidewater Pipestone Gas Plant.

No further drilling activity is required to achieve Advantage's 2019 liquids growth plan; wells drilled in the second half of 2019 will contribute to 2020 production.

Secured Additional Natural Gas Transportation to Empress

Advantage has secured an additional 76 mmcf/d of firm transportation capacity to Empress, AB on the NGTL system. Contract terms are between 4 and 25 years, commencing with 52 mmcf/d November 2020 increasing to 76 mmcf/d in 2021. Although AECO prices have been extremely volatile since TC Energy changed the NGTL pipeline system balancing procedure in July 2017, Empress has remained a strong pricing point with available downstream capacity to continental markets. This new service, combined with an existing, diverse marketing portfolio, is designed to result in effectively all of Advantage's forecast gas production being sold into markets outside of AECO by 2021.

Advantage will continue diversifying revenue streams, including increased liquids production. However, as TC Energy proceeds with the announced 3.2 Bcf/d NGTL expansion, Advantage anticipates AECO volatility may be reduced. Advantage will remain well positioned to capitalize on a recovery, with a prolific, low supply cost natural gas resource base and significant available plant capacity that would allow us to rapidly increase exposure to AECO if warranted.

For the third quarter of 2019, Advantage has fixed price hedges on 52% of its estimated natural gas production at an average price of $2.12/mcf, with only 19% of gas production remaining exposed to AECO, and the balance being sold into Dawn and midwest markets.

Second Quarter 2019 Highlights:

- 142% increase in average liquids production year over year to 2,580 bbls/d, with an exit rate exceeding 2,700 bbls/d. Liquids contributed 20% of total revenue including hedging gains
- Total production of 43,000 boe/d, despite proactively shutting-in an average of 5,000 boe/d of dry gas during periods of extremely low AECO pricing
- $16 million gain from our market diversification portfolio which includes fixed price hedges, increased midwest U.S. sales from 20 mmcf/d to 40 mmcf/d, and Dawn sales of 53 mmcf/d. This resulted in an average realized natural gas price of $2.17/mcf compared to the average daily AECO price of$1.03/mcf
- Generated adjusted funds flow[(a)] of $33 million ($0.18/share)
- Reduced total debt to adjusted funds flow[(a)] to 1.7x from 1.9x during the quarter

Looking Forward – Guidance Reaffirmed with Capital Flexibility

The Corporation's 2019 net capital expenditures[(a)] guidance range remains between $180 and $200 million. Our 2019 annual production guidance range remains between 43,500 and 46,500 boe/d, including liquids production between 2,900 and 3,200 bbls/d.

In the third quarter of 2019, Advantage is prepared to continue restricting dry natural gas production exposed to AECO if there are periods of extremely low prices. However, the Corporation has adequate productive capacity to achieve 2019 gas production targets, so long as prices justify steady production in the second half. Liquids production is expected to continue increasing through the second half of 2019.

Advantage retains flexibility to moderate capital spending by up to$30 million through the second half of 2019 with no impact expected on our 2019 liquids production guidance. Any reductions to the capital program will be prioritized to minimize the impact on our high-returns liquids projects and will be intended to preserve a total debt to adjusted funds flow[(a)] ratio below two times.

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 and enhance shareholder returns.

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, plans and priorities, expectations generally and with respect to its liquid development; the Corporation's hedging activities; timing and magnitude of firm capacity increases to Empress, Alberta; the Corporation's expected exposure to AECO by 2021; the terms of the Corporation's derivative contracts; the anticipated timing of when wells in Glacier, Valhalla, and Pipestone/Wembley will be brought on production and the start-up of the new Tidewater Pipestone Gas Plant; expectation that no further drilling is required to achieve Advantage's 2019 liquids production growth plan; intention that all of Advantage's forecast gas production is sold into markets outside of AECO by 2021; expectation that AECO volatility may be reduced and the expectation that Advantage will remain well positioned to capitalize on this recovery and increase exposure to AECO; Advantage's anticipated amount of investment in the second half of 2019 and the benefits to be derived therefrom; the Corporation's 2019 net capital expenditures guidance range and the Corporation's 2019 annual production guidance range; and 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.

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", "total debt", "adjusted funds flow", and "total debt to adjusted funds flow", 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. Please see the "Non-GAAP Measures" section in the Management Discussion & Analysis for the reconciliations to the nearest measure calculated in accordance with GAAP, which is available at www.sedar.com ("SEDAR") and www.advantageog.com.

Net Capital Expenditures

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

Total Debt

Total debt is comprised of bank indebtedness and working capital. Total debt provides Management and users with a measure of the Corporation's indebtedness and expected settlement of net liabilities in the next year.

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 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. Expenditures on decommissioning liabilities are excluded from the calculation as the amount and timing of these expenditures are unrelated to current production, highly variable and discretionary.

Total Debt to Adjusted Funds Flow

Total debt to adjusted funds flow is calculated by dividing total debt by adjusted fund flow for the previous four quarters. Total debt to adjusted funds flow is a coverage ratio that provides Management and users the ability to determine how long it would take the Corporation to repay its debt if it devoted all its adjusted funds flow to debt repayment.

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

bbl	*one barrel*
bbls	*barrels*
bbls/d	*barrels per day*
bbls/mmcf	*barrels per million cubic fee*
bcf/d	*billion cubic feet 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*
NGL	*natural gas liquids*

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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