Advantage Announces Third Quarter 2019 Operating & Financial Results

Liquids Production Transition On-Track with Corporate Plan
(TSX: AAV)

CALGARY, Oct. 31, 2019 /CNW/ - Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to announce solid third quarter 2019 results and the fifth consecutive quarter of increasing liquids production. Development is proceeding as planned on Advantage's significant Montney oil and liquids assets, and exposure to light oil and condensate revenue continues to increase. The Corporation's measured delineation program also resulted in the discovery of a light oil pool on our 50 net section Progress land block in the third quarter of 2019 (see Advantage press release dated September 3, 2019). With this discovery, the Progress asset has become Advantage's fourth liquids development asset, further strengthening our portfolio of high-quality resource. Advantage now holds a total of 210 net sections of Montney/Doig rights at Glacier, Valhalla, Progress and Pipestone/Wembley.

During the third quarter of 2019, liquids production increased to 3,142 bbls/d, up 74% year-over-year and 22% versus second quarter of 2019. Liquids accounted for 23% of revenue in the third quarter of 2019, on-track to the Corporation's target of approximately 50% of revenue from liquids in 2021.

Consistent with our previously stated production management strategy, Advantage shut-in significant volumes of AECO-exposed dry natural gas during extremely low-price periods in the third quarter of 2019. Over the entire quarter, the shut-in volumes averaged 13 mmcf/d (2,160 boe/d). Total production averaged 42,080 boe/d with natural gas production of 233.6 mmcf/d and average AECO daily prices of $0.91/mcf over the third quarter of 2019.

On October 15, 2019, TC Energy implemented the Temporary Service Protocol ("TSP") on the NGTL system. The TSP is an operating procedure which modifies the NGTL pipeline balancing mechanism during times of maintenance between April and October. AECO prices increased to average over $2.60/mcf for the remainder of October, and accordingly Advantage has maximized natural gas production levels, subject to NGTL firm service restrictions.

Highlights for the nine months and third quarter of 2019:

- Total production was 43,310 boe/d for the nine months of 2019 (7% higher than 2018), with third quarter 2019 production of 42,080 boe/d.
- Liquids production was 2,588 bbls/d for the nine months of 2019 (95% higher than 2018), with third quarter 2019 liquids production of 3,142 bbls/d (74% higher than 2018).
- Generated adjusted funds flow[(a)] of $110.7 million ($0.59/share) for the nine months of 2019 with net capital expenditures of $125.3 million. During the third quarter of 2019, adjusted funds flow[(a)] was $27.9 million ($0.15/share).
- Achieved $37.6 million of gains from our market diversification portfolio, including $24.1 million of hedging gains, over the nine months of 2019. This resulted in an average realized natural gas price of $2.45/mcf compared to the average daily AECO price of $1.51/mcf.
- Maintained low cost structure with royalty costs of $0.21/boe, operating costs of $2.01/boe, transportation costs of $3.51/boe and general & administrative costs of $0.71/boe over the nine months of 2019.
- Retained strong financial flexibility with total debt to adjusted funds flow[(a)] of 1.8x at the end of the third quarter 2019. Advantage's credit facility has been recently reconfirmed at $400 million following its semi-annual banking syndicate review.

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

Operations Update

Glacier/Valhalla Middle Montney

At Glacier, all 10 middle Montney wells that were completed in the first quarter of 2019 were brought on production, at or above expectations, by the third quarter. At Valhalla, the final 5 wells from the first quarter 2019 program were tied-in and began production. Successful well results at both Glacier and Valhalla provided the liquids production growth in the second and third quarters.

Pipestone/Wembley

At Pipestone/Wembley, a 4-well pad targeting oil in the D3 zone was drilled during the third quarter 2019, with completions planned for November and production expected to begin at year-end. In October 2019, three additional D3 wells were drilled,

plus one water disposal, with completions planned in early 2020.

Advantage's first D3 well (12-25) at Pipestone/Wembley began producing to a new third-party gas plant in October 2019, approximately one month behind schedule. The commissioning of the new facility continues, though run times have been lower than anticipated.

Construction has commenced on Advantage's Pipestone/Wembley 5,000 bbls/day liquids handing hub and south block pipeline gathering system. The liquids hub is expected to be completed by the second quarter of 2020.

Progress

The 16-36 discovery well and three previous Montney oil wells at Progress (see Advantage press release dated September 3, 2019) remain shut-in awaiting tie-in. Construction of the Progress to Valhalla pipeline commenced in the third quarter of 2019 with delays caused by wet weather conditions. Production is anticipated to begin by year-end 2019, flowing at restricted rates to the Advantage Glacier Gas Plant via 100% owned infrastructure. Engineering design of a new 5,000 bbls/d Progress liquids handling hub, which will allow higher rates of production and lower flowing pressures, is underway.

Looking Forward

Advantage expects to maximize gas production for the remainder of the year. The Corporation anticipates reduced AECO price volatility and improved prices through this winter as a result of extremely low Alberta natural gas storage levels and an apparent contraction in industry supply as a result of reduced investment. Advantage also believes that the combined impacts of the TSP effective during next summer, the continued expansion of the NGTL system in 2020 and 2021 resulting in 3.1 Bcf/d of new demand and more favorable TCPL mainline tolls will result in improved support for Canadian natural gas prices.

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.

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

Third Quarter 2019 Operating and Financial Summary

Financial Highlights	**Three months ended September 30**		**Nine months ended September 30**	
($000, except as otherwise indicated)	**2019**	**2018**	**2019**	**2018**
Financial Statement Highlights				
Sales including realized hedging [3]	**$ 56,927**	$ 57,928	**$ 198,316**	$ 176,625
Net loss and comprehensive loss	**$ (26,863)**	$ (8,852)	**$ (22,810)**	$ (14,043)
per basic share [2]	**$ (0.14)**	$ (0.05)	**$ (0.12)**	$ (0.08)
Cash provided by operating activities	**$ 27,323**	$ 27,950	**$ 116,098**	$ 107,613
Cash provided by financing activities	**$ 5,010**	$ 11,005	**$ 4,202**	$ 52,198
Cash used in investing activities	**$ 36,258**	$ 39,085	**$ 123,275**	$ 163,011
Basic weighted average shares (000)	**186,911**	186,065	**186,574**	186,073
Other Financial Highlights				
Adjusted funds flow [1]	**$ 27,928**	$ 32,035	**$ 110,728**	$ 104,077
per boe	**$ 7.21**	$ 7.63	**$ 9.37**	$ 9.46
per basic share [2]	**$ 0.15**	$ 0.17	**$ 0.59**	$ 0.56
Net capital expenditures [1]	**$ 48,313**	$ 47,502	**$ 125,313**	$ 149,899
Working capital deficit [1]	**$ 13,322**	$ 8,169	**$ 13,322**	$ 8,169
Bank indebtedness	**$ 275,594**	$ 259,179	**$ 275,594**	$ 259,179
Total debt [1]	**$ 288,916**	$ 267,348	**$ 288,916**	$ 267,348

(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 September 30		Nine months ended September 30	
	2019	2018	2019	2018
Operating				
Daily Production				
Natural gas (mcf/d)	**233,625**	262,841	**244,331**	233,780
Liquids (bbls/d)	**3,142**	1,804	**2,588**	1,328
Total production (mcfe/d)	**252,477**	273,665	**259,859**	241,748
Total production (boe/d)	**42,080**	45,611	**43,310**	40,291
Average prices (including realized hedging)				
Natural gas ($/mcf) [2]	**$ 2.04**	$ 1.93	**$ 2.45**	$ 2.38
Liquids ($/bbl)	**$ 45.32**	$ 67.90	**$ 49.17**	$ 68.59
Operating Netback ($/boe)				
Sales of natural gas and liquids from production	**$ 11.98**	$ 13.33	**$ 14.73**	$ 13.77
Net sales of natural gas purchased from third parties [1]	**(0.03)**	-	**(0.13)**	0.10
Realized gains on derivatives	**2.72**	0.47	**2.04**	2.29
Royalty expense	**(0.06)**	(0.19)	**(0.21)**	(0.08)
Operating expense	**(2.12)**	(1.61)	**(2.01)**	(1.85)
Transportation expense	**(3.58)**	(3.09)	**(3.51)**	(3.40)
Operating netback [1]	**$ 8.91**	$ 8.91	**$ 10.91**	$ 10.83

(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 unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 together with the notes thereto, and Management's Discussion and Analysis for the three and nine months ended September 30, 2019 have been filed on SEDAR and are available on the Corporation's website at http://www.advantageog.com/investors/financial-reports/financial-reports-2019.

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 focus strategy, plans and expectations generally; the number and timing of well completions at Pipestone/Wembley and the timing for production to begin; the timing for infrastructure to be completed and associated benefits from such infrastructure; the timing for production to begin at Progress; the expectation that Advantage will maximize gas production for the remainder of 2019; anticipated reduced AECO price volatility and the reasons therefor; and the belief of improved support for Canadian natural gas prices and the reasons therefor. 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. See below under the heading "Non-GAAP Measures" for how operating netback is calculated.

Type curve references in this press release are based on Advantage's historical production. Such type curves and well economics are useful in understanding management's assumptions of well performance in making investment decisions in relation to development drilling in the Montney area and for determining the success of the performance of development wells; however, such type curves and well economics are not necessarily determinative of the production rates and performance of existing and future wells and such type curves do not reflect the type curves used by our independent qualified reserves

evaluator in estimating our reserves volumes. The type curves differ as a result of varying horizontal well length, stage count and stage spacing. The type curves represent the average type curves expected.

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", "total debt to adjusted funds flow", "working capital" 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:

	Three months ended September 30		Nine months ended September 30	
($000)	**2019**	**2018**	**2019**	**2018**
Cash used in investing activities	**$ 36,258**	**$ 39,085**	**$ 123,275**	**$ 163,011**
Changes in non-cash working capital	12,055	8,417	2,038	(13,112)
Net capital expenditures	**$ 48,313**	**$ 47,502**	**$ 125,313**	**$ 149,899**

Working Capital

Working capital includes cash and cash equivalents, trade and other receivables, prepaid expenses and deposits and trade and other accrued payables at the reporting date. Working capital provides Management and users with a measure of the Corporation's operating liquidity.

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. A detailed calculation of total debt is provided below:

($000)	**September 30, 2019**	**December 31, 2018**
Bank indebtedness (non-current)	$ 275,594	$ 270,918
Working capital deficit	13,322	1,912
Total debt	**$ 288,916**	**$ 272,830**

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 other long-term 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. 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. Adjusted funds flow has also been presented per boe, by dividing

adjusted funds flow by total production in boe for the reporting period, and per basic share, by dividing by the basic weighted average shares outstanding of the Corporation. A reconciliation between adjusted funds flow and the nearest measure calculated in accordance with GAAP, cash provided by operating activities, is provided below:

	Three months ended September 30		Nine months ended September 30	
($000)	**2019**	**2018**	**2019**	**2018**
Cash provided by operating activities	**$** 27,323	$ 27,950	$ 116,098	$ 107,613
Increase in other long-term liabilities	(433)	-	(799)	-
Expenditures on decommissioning liability	271	501	1,826	737
Changes in non-cash working capital	767	3,584	(6,397)	(4,273)
Adjusted funds flow	**$ 27,928**	**$ 32,035**	**$ 110,728**	**$ 104,077**

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.

Operating Netback

Advantage calculates operating netback on a per boe basis. Operating netback is comprised of sales revenue, realized gains on derivatives and net sales of natural gas purchased from third parties, 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.

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.

Terms and abbreviations that are used in this press release that are not otherwise defined herein are provided below:

bbl(s)	*- barrel(s)*
bbls/d	*- barrels per day*
bcf/d	*- billion cubic feet per day*
boe	*- barrels of oil equivalent (6 mcf = 1 bbl)*
boe/d	*- barrels of oil equivalent per day*
mcf	*- thousand cubic feet*
mcf/d	*- thousand cubic feet per day*
mcfe	*- thousand cubic feet equivalent (1 bbl = 6 mcf)*
mcfe/d	*- thousand cubic feet equivalent per day*
mmbtu	*- million British thermal units*
mmbtu/d	*- million British thermal units per day*
mmcf	*- million cubic feet*
mmcf/d	*- million cubic feet per day*
AECO	*- a notional market point on TransCanada Pipeline Limited's NGTL system where the purchase and sale of natural gas is transacted*
NGTL	*- NOVA Gas Transmission Ltd.*

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