Advantage Announces Fourth Quarter and Year End 2019 Results

(TSX: AAV)

CALGARY, Feb. 27, 2020 /CNW/ - Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to announce its 2019 results, including considerable progress on liquids growth, continued operational excellence of our low-cost natural gas foundation, and solid performance on our 2019 objectives. With modern, low emissions-intensity assets and our Glacier Carbon Sequestration project, the Corporation continues to proudly deliver clean and sustainable energy, contributing to a reduction in global emissions by displacing high-carbon fuels.

We are proud of our Team's 2019 achievements and thank Advantage's Board of Directors and our shareholders for their support. We look forward to reporting on our progress as the Team continues to execute on our liquids-focused development plan.

Accomplishments during 2019 included:

- Record annual production of 44,334 boe/d, an increase of 6% (250 mmcf/d natural gas and 2,700 bbls/d liquids).
- Record quarterly natural gas production of 266 mmcf/d in the fourth quarter of 2019 during a period of elevated AECO prices.
- Increased liquids production by 81% to average 2,700 bbls/d in the fourth quarter of 2019. Liquids comprised 18% of total revenue.
- Discovery of a light oil pool at Progress, elevating the asset to a top tier investment priority. Production began in the first quarter of 2020 above management expectations.
- Commissioned a 40 mmcf/d and 2,000 bbls/d liquids hub at our Valhalla asset, which alleviated a facility restriction.
- Initial production from our first well at Pipestone/Wembley in the fourth quarter of 2019.
- Achieved hedging and market diversification gains of $32 million.
- Increased CO_2e sequestration credits by 59% to 90,500 tonnes.
- Achieved operating costs of $1.98/boe.
- Delivered on 2019 plan with capital spending reduced from $225 million to $185 million.

2019 Operating and Financial Results Summary

- Annual 2019 cash provided by operating activities of $156 million and adjusted funds flow[(a)] of $155 million or $0.83/share.

- Year-end net debt[(a)] was $304 million on a $400 million bank credit facility, resulting in a net debt to adjusted funds flow[(a)] ratio of 2.0.

Financial Highlights	**Three months ended December 31**		**Year ended December 31**	
($000, except as otherwise indicated)	**2019**	**2018**	**2019**	**2018**
Financial Statement Highlights				
Sales including realized derivatives [(3)]	**$ 76,921**	$ 73,979	**$ 275,237**	$ 250,604
Net income (loss) and comprehensive income (loss)	**$ (1,844)**	$ 25,162	**$ (24,654)**	$ 11,119
per basic share [(2)]	**$ (0.01)**	$ 0.14	**$ (0.13)**	$ 0.06
Cash provided by operating activities [(4)]	**$ 39,965**	$ 41,627	**$ 156,063**	$ 149,240
Cash provided by financing activities [(4)]	**$ 20,037**	$ 11,739	**$ 24,317**	$ 63,937
Cash used in investing activities	**$ 50,365**	$ 50,723	**$ 173,640**	$ 213,734
Basic weighted average shares (000)	**186,911**	185,942	**186,659**	186,040
Other Financial Highlights				
Adjusted funds flow [(1)]	**$ 44,452**	$ 46,301	**$ 155,180**	$ 150,378
per boe [(1)]	**$ 10.20**	$ 11.02	**$ 9.59**	$ 9.89
per basic share [(1)(2)]	**$ 0.23**	$ 0.25	**$ 0.83**	$ 0.81
Net capital expenditures [(1)]	**$ 59,609**	$ 51,187	**$ 184,922**	$ 201,086
Working capital deficit [(1)]	**$ 7,996**	$ 1,912	**$ 7,996**	$ 1,912
Bank indebtedness	**$ 295,624**	$ 270,918	**$ 295,624**	$ 270,918
Net debt [(1)]	**$ 303,620**	$ 272,830	**$ 303,620**	$ 272,830

(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.
(4) Cash provided by operating activities and cash provided by financing activities for the three months and year ended December 31, 2018 has been adjusted to conform to the presentation adopted for the periods ended December 31, 2019.

Operating Highlights	**Three months ended December 31**		**Year ended December 31**	
	2019	**2018**	**2019**	**2018**
Operating				
Daily Production				
Natural gas (mcf/d)	**266,035**	262,269	**249,802**	240,959
Liquids (bbls/d)	**3,031**	1,974	**2,700**	1,491
Total production (mcfe/d)	**284,221**	274,113	**266,002**	249,905
Total production (boe/d)	**47,370**	45,686	**44,334**	41,651
Average realized prices (including realized derivatives)				
Natural gas ($/mcf) (2)	**$ 2.58**	$ 2.69	**$ 2.49**	$ 2.47
Liquids ($/bbl)	**$ 49.09**	$ 49.23	**$ 49.14**	$ 62.12
Operating Netback ($/boe)				
Sales of natural gas and liquids from production	**$ 17.69**	$ 16.86	**$ 15.53**	$ 14.62
Net sales of natural gas purchased from third parties(1)	**0.00**	0.00	**(0.09)**	0.07
Realized gains (losses) on derivatives	**(0.04)**	0.74	**1.48**	1.86
Royalty expense	**(0.51)**	(0.39)	**(0.29)**	(0.17)
Operating expense	**(1.89)**	(1.73)	**(1.98)**	(1.82)
Transportation expense	**(3.46)**	(3.18)	**(3.50)**	(3.33)
Operating netback (1)	**$ 11.79**	**$ 12.30**	**$ 11.15**	**$ 11.23**

(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, 2019 together with the notes thereto, and Management's Discussion and Analysis for the year ended December 31, 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. The Corporation's audited consolidated financial statements for the fiscal year endedDecember 31, 2018 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 "anticipate", "continue", "demonstrate", "expect", "may", "can", "will", "believe", "would" and similar expressions and include statements relating to, among other things, Advantage's strategy and development plans; and Advantage's expectations generally and with respect to its liquid development. 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. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this press release and Advantage disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

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. References to natural gas or liquids production in this press release refer to conventional natural gas and natural gas liquids, respectively, product types as defined in National Instrument 51-101.

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 press 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", "net debt", "net 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 December 31		Year ended December 31	
($000)	2019	2018	2019	2018
Cash used in investing activities	$ 50,365	$ 50,723	$ 173,640	$ 213,734
Changes in non-cash working capital	9,244	464	11,282	(12,648)
Net capital expenditures	$ 59,609	$ 51,187	$ 184,922	$ 201,086

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.

Net Debt

Net debt is comprised of bank indebtedness and working capital. Net 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 net debt is provided below:

($000)	December 31 2019	December 31 2018
Bank indebtedness (non-current)	$ 295,624	$ 270,918
Working capital deficit	7,996	1,912
Net debt	$ 303,620	$ 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 December 31		Year ended December 31	
($000, except as otherwise indicated)	2019	2018	2019	2018
Cash provided by operating activities	$ 39,965	$ 41,627	$ 156,063	$ 149,240
Expenditures on decommissioning liability	85	1,045	1,911	1,782
Changes in non-cash working capital	4,402	3,629	(2,794)	(644)

Adjusted funds flow	$ 44,452	$ 46,301	$ 155,180	$ 150,378

Net Debt to Adjusted Funds Flow

Net debt to adjusted funds flow is calculated by dividing net debt by adjusted fund flow for the previous four quarters. Net 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 (losses) 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.

	Three months ended December 31			
	2019		2018	
	$000	per boe	$000	per boe
Sales of natural gas and liquids from production	$ 77,102	$ 17.69	$ 70,858	$ 16.86
Net sales of natural gas purchased from third parties	-	-	-	-
Realized gains (losses) on derivatives	(181)	(0.04)	3,121	0.74
Royalty expense	(2,231)	(0.51)	(1,654)	(0.39)
Operating expense	(8,225)	(1.89)	(7,262)	(1.73)
Transportation expense	(15,072)	(3.46)	(13,350)	(3.18)
Operating netback	$ 51,393	$ 11.79	$ 51,713	$ 12.30

	Year ended December 31			
	2019		2018	
	$000	per boe	$000	per boe
Sales of natural gas and liquids from production	$ 251,279	$ 15.53	$ 222,335	$ 14.62
Net sales of natural gas purchased from third parties	(1,505)	(0.09)	1,111	0.07
Realized gains on derivatives	23,958	1.48	28,269	1.86
Royalty expense	(4,690)	(0.29)	(2,583)	(0.17)
Operating expense	(31,967)	(1.98)	(27,593)	(1.82)
Transportation expense	(56,607)	(3.50)	(50,694)	(3.33)
Operating netback	$ 180,468	$ 11.15	$ 170,845	$ 11.23

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 terms and 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 fee 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*
Liquids or NGLs	*Natural Gas Liquids as defined in National Instrument 51-101*
Natural gas	*Conventional Natural Gas as defined in National Instrument 51-101*

SOURCE Advantage Oil & Gas Ltd.

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