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Advantage Announces Increase to 2020 Capital Guidance

(TSX: AAV)

CALGARY, AB, Oct. 8, 2020 /CNW/ - Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to announce a modest increase in 2020 capital guidance, as a result of continued strengthening of the Corporation's outlook. Spending for 2020 is now projected to be between $147 million and $162 million, an increase of approximately $17 million, primarily to accelerate a four-well pad into Q4 2020 and augment natural gas production through the winter season.

Program highlights:

- The four additional wells are to be drilled at Glacier (two D4 Montney and two Upper Montney); all four of these wells are expected to be onstream during the first quarter of 2021
- Six Glacier wells have been drilled to date in the second half of 2020 (all D1 Montney); all six of these wells are expected to be onstream prior to year-end 2020
- All 10 wells in the program are expected to have payouts within one year of spud date
- Production will be processed using existing capacity at Advantage's 400 mmcf/d Glacier Gas Plant, incurring minimal incremental operating costs and low carbon-intensity

Advantage's 2021 production is expected to grow between 5% and 10%, with exceptional growth anticipated in adjusted funds flow[(a)] ("AFF") based on current natural gas futures pricing. Directionally, Advantage expects that 2021 net capital expenditures will be approximately 75% of AFF, and that net debt to AFF[(a)] ratio will approach 1x by year-end 2021. The Corporation plans to provide formal 2021 guidance during the fourth quarter of 2020.

As a part of our annual planning strategy, Advantage has completed detailed analysis to establish a baseline for "sustaining capital", defined as the estimated net capital expenditures required annually to keep corporate production flat over a sustained three-year period. For the period of 2021 to 2023, Advantage's sustaining capital is estimated to be under $80 million per year, as a result of prolific Montney assets and a corporate base decline rate of approximately 23%.

Based on our current commodity price outlook for 2021, Advantage anticipates spending roughly three-quarters of capital on Glacier drilling with the remainder to be used to advance our oil and liquids developments at Valhalla, Progress and Pipestone/Wembley. Advantage has maintained the flexibility to reallocate capital between assets should prices swing in favor of liquids development.

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.

Hedging Update

Advantage has hedged approximately 51% of its natural gas production for the second half of 2020. The Corporation continues to increase its hedging position in 2021 and currently has 31% of forecast natural gas production hedged between Henry Hub, Chicago and Dawn at an average price of US$2.51/mmbtu. Advantage has hedged 33% of its crude oil and condensate production for the second half of 2020 with WTI swaps at an average price of US$55.44/bbl.

2020 Guidance Update

Advantage's 2020 capital guidance range will now be $147 million to $162 million versus the previous range of $130 million to $145 million. There are no other changes to the Corporation's previous 2020 guidance.

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 "guidance", "anticipate", "continue", "demonstrate", "expect", "may", "can", "will", "believe", "would" and similar expressions and include statements relating to, among other things, Advantage's focus, strategy and development plans; timing for wells to come on-stream at Glacier; number of wells planned for the second half of 2020; anticipation that for 2021, net capital expenditures will be approximately 75% of adjusted funds flow; Advantage's ability to grow

2021 adjusted funds flow based on current natural gas futures pricing; Advantage's estimates of base decline rate and sustaining capital for the period of 2021 to 2023; Advantage's ability to reduce its net debt to adjusted funds flow in 2021; production growth for 2021; and the Corporation's hedging activities and the benefits to be derived therefrom. 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, including as a result of demand and supply effects resulting from the COVID-19 pandemic; 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, net 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 and processing 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; the impact and duration thereof that the COVID-19 pandemic will have on (i) the demand for crude oil, NGLs and natural gas, (ii) the supply chain including the Corporation's ability to obtain the equipment and services it requires, and (iii) the Corporation's ability to produce, transport and/or sell its crude oil, NGLs and natural gas; 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.

This press release contains a number of oil and gas and finance metrics, including base decline rate, sustaining capital and payouts, 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. Base decline rate is Management's estimated annual reduction in corporate production from currently producing wells that is expected to occur in the subsequent year. Sustaining capital is Management's estimate of the capital required to drill, complete, equip and tie-in new wells to existing infrastructure thereby offsetting the corporate base decline rate and maintain production at existing levels. Payouts means the anticipated duration of production from a well expected to recoup its initial capital investment. Management uses these oil and gas and finance *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.*

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", "net debt", "working capital" and "net 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 Corporation's most recent Management's Discussion and Analysis, which is available at www.sedar.com and www.advantageog.com, for additional information about these financial measures, including a reconciliation to the nearest GAAP measures.

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.

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 bank 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 and paying payables. Expenditures on decommissioning liabilities are excluded from the calculation as the amount and timing of these expenditures are unrelated to current production and are partially discretionary due to the nature of our low liability.

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 net debt if it devoted all its adjusted funds flow to repayment.

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*
mmbtu	*million British thermal units*
mmcf	*million cubic feet*
mmcf/d	*million cubic feet per day*
mmcfe/d	*million cubic feet equivalent per day*
Crude oil and condensate	*Light crude oil and medium crude oil as defined in National Instrument 51-101*
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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