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Advantage Announces Third Quarter 2020 Financial and Operating Results and 2021 Budget

(TSX: AAV)

CALGARY, AB, Oct. 29, 2020 /CNW Telbec/ - Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to report solid third quarter 2020 financial and operating results and announce its 2021 capital program.

Production, operating costs and adjusted funds flow met or exceeded expectations, despite the volatile macroeconomic environment. Advantage's strong foundations have supported the Corporation through the pandemic, with a fortified balance sheet (net debt to adjusted funds flow ratio of 2.1x), low base decline (23%), low operating cost ($2.35/boe) and low sustaining capital (under $80 million per year required to sustain production for minimum of three years).

Advantage's 2021 capital program will target modest production growth (5-10%), with spending aimed at approximately 75% of projected adjusted funds flow. By focusing on highest rate-of-return, gas-weighted locations, adjusted funds flow growth will be maximized. Modest spending (~20% of total budget) will continue on future development initiatives, including infrastructure optimization, completion piloting in oil plays and expiry drilling.

Highlights for the quarter include:

- Cash provided by operating activities of $25.3 million
- Adjusted funds flow[a] of $23.6 million ($0.13 per share), with net capital expenditures[a] of $21.3 million ($2.3 million or 10% free cash flow[a])
- Total production of 44,448 boe/d (89% natural gas), an increase of 6% over third quarter 2019
- Liquids production achieved a record of 4,729 bbls/d (2,417 bbls/d crude oil and condensate, 2,312 bbls/d NGLs), up 51% from the third quarter 2019
- Gas production of 238 mmcf/d (up 2% from third quarter 2019), demonstrating the low decline rates of our natural gas assets, with only one Glacier well brought on-production in 2020
- Net loss was $21.6 million during the third quarter of 2020 due to lower realized gains on derivatives and $22.9 million unrealized losses on derivatives, partially offset by increased sales
- Reduced net debt from the second quarter of 2020 by $107.2 million, or 30%, as a result of proceeds from the sale of a 12.5% interest in the Glacier Gas Plant, together with free cash flow[a]
- Revolving credit facility of $350 million was renewed unchanged following completion of the fall semi-annual review

With a focus on delivering free cash flow and modest production growth, Advantage will continue to allocate capital primarily to high-return, short payout projects throughout our assets, and apply free cash flow to debt reduction.

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.

Key Objectives For 2021 Budget:

- Grow 2021 production between 5% and 10% with exceptional growth anticipated in adjusted funds flow ("AFF") based on current natural gas futures pricing
- 2021 net capital expenditures will target approximately 75% of AFF (2021 capital expected to be 10% to 15% below 2020 spending)
- Retain financial flexibility and discipline by targeting a net debt to AFF ratio approaching 1x by year-end 2021

2021 Budget Summary [1] [3]

Cash Used in Investing Activities [2] (millions)	$125 to $150
Average Production (boe/day)	47,000 to 49,000
Liquids Production (% of total)	8 to 9
Royalty Rate (%)	3 to 5
Operating Expense ($/boe)	$2.55
Transportation Expense ($/boe)	$4.15

G&A/Finance Expense ($/boe)	$2.00

Notes:
(1) Forward-looking statements and information. Refer to Advisory for cautionary statements regarding Advantage's budget including material assumptions and risk factors
(2) Cash Used in Investing Activities is the same as Net Capital Expenditures as no change in non-cash working capital is assumed between years and other differences are immaterial
(3) Management estimate

Based on our current commodity price outlook for 2021, Advantage anticipates spending roughly three-quarters of its 2021 capital on Glacier gas-weighted development with 20% directed towards future development initiatives, including 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.

Operational Update

Advantage invested $21.3 million on property, plant, and equipment during the three months ended September 30, 2020. Advantage's capital activity was focused primarily on drilling operations at Glacier.

With increasing gas prices, additional capital has been allocated to our foundational Glacier gas property for the balance of 2020. A ten well program has been planned for the second half of 2020, with five of the wells drilled and rig released in the third quarter. The remaining five wells will be drilled in the fourth quarter, along with completions of the first six wells. The remaining four wells will be completed in the first quarter of 2021.

At Valhalla, production remained partially restricted thanks to the continued outperformance of area wells, and with the introduction of production piped in from the Progress asset through the Valhalla 40 mmcf/d compressor and liquids hub. With the addition of gas from Progress and one remaining well shut-in awaiting capacity at Valhalla, the facility is anticipated to be full for the balance of 2020.

Advantage's current standing well inventory consists of one well that is tied-in and five wells that are drilled and cased.

Hedging Update

Advantage has hedged approximately 49% of its natural gas production for the fourth quarter of 2020. The Corporation continues to increase its hedging position in 2021 and currently has 33% of forecast natural gas production hedged between AECO, Henry Hub, Chicago and Dawn at an average equivalent price of US$2.56/Mmbtu, assuming adjustment for foreign exchange at $0.76. Advantage has 44% of its crude oil and condensate production hedged for the fourth quarter of 2020 with WTI swaps at an average price of US$55.44/bbl and 27% of its crude oil and condensate production hedged for 2021 at US$43.00/bbl.

Financial Highlights	**Three months ended September 30**		**Nine months ended September 30**	
($000, except as otherwise indicated)	**2020**	**2019**	**2020**	**2019**
Financial Statement Highlights				
Sales including realized derivatives	**$ 55,763**	$ 56,927	**$ 170,128**	$ 198,316
Net loss and comprehensive loss	**$ (21,606)**	$ (26,863)	**$ (308,213)**	$ (22,810)
per basic share [2]	**$ (0.11)**	$ (0.14)	**$ (1.64)**	$ (0.12)
Basic weighted average shares (000)	**188,113**	186,911	**187,643**	186,574
Cash provided by operating activities	**$ 25,271**	$ 27,323	**$ 70,454**	$ 116,098
Cash provided by (used in) financing activities	**$ (15,436)**	$ 5,010	**$ 43,016**	$ 4,202
Cash used in investing activities	**$ 11,220**	$ 36,258	**$ 121,296**	$ 123,275
Other Financial Highlights				
Adjusted funds flow [1]	**$ 23,571**	$ 27,928	**$ 72,923**	$ 110,728
per boe [1]	**$ 5.76**	$ 7.21	**$ 5.86**	$ 9.37
per basic share [1][2]	**$ 0.13**	$ 0.15	**$ 0.39**	$ 0.59
Net capital expenditures [1]	**$ 21,252**	$ 48,313	**$ 125,545**	$ 125,313
Working capital deficit [1]	**$ 9,093**	$ 13,322	**$ 9,093**	$ 13,322
Bank indebtedness	**$ 241,161**	$ 275,594	**$ 241,161**	$ 275,594
Net debt [1]	**$ 250,254**	$ 288,916	**$ 250,254**	$ 288,916

Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities.

(1) Please see "Non-GAAP Measures".
(2) Based on basic weighted average shares outstanding.

Operating Highlights	Three months ended September 30				Nine months ended September 30			
		2020		2019		2020		2019
Operating								
Daily Production								
Crude oil and condensate (bbls/d)		**2,417**		1,388		**2,404**		1,110
NGLs (bbls/d)		**2,312**		1,754		**1,960**		1,478
Total liquids production (bbls/d)		**4,729**		3,142		**4,364**		2,588
Natural gas (mcf/d)		**238,315**		233,625		**246,147**		244,331
Total production (boe/d)		**44,448**		42,080		**45,389**		43,310
Average realized prices (including realized derivatives)								
Natural gas ($/mcf)	**$**	**1.81**	$	2.04	**$**	**1.88**	$	2.45
Crude oil and condensate ($/bbl)	**$**	**49.19**	$	66.52	**$**	**46.48**	$	66.79
NGLs ($/bbl)	**$**	**24.45**	$	28.54	**$**	**23.32**	$	35.95
Operating Netback ($/boe)								
Petroleum and natural gas sales from production	**$**	**14.69**	$	11.98	**$**	**13.82**	$	14.73
Net sales of natural gas purchased from third parties [1]		**0.00**		(0.03)		**0.00**		(0.13)
Realized gains (losses) on derivatives		**(1.03)**		2.72		**(0.14)**		2.04
Royalty expense		**(0.63)**		(0.06)		**(0.60)**		(0.21)
Operating expense		**(2.35)**		(2.12)		**(2.35)**		(2.01)
Transportation expense		**(3.12)**		(3.58)		**(3.32)**		(3.51)
Operating netback [1]	**$**	**7.56**	$	8.91	**$**	**7.41**	$	10.91

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

The Corporation's unaudited consolidated financial statements for the three and nine months ended September 30, 2020 together with the notes thereto, and Management's Discussion and Analysis for the three and nine months ended September 30, 2020 have been filed on SEDAR and are available on the Corporation's website at https://www.advantageog.com/investors/financial-reports. 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 "guidance", "anticipate", "target", "objectives", "estimates", "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 and the first quarter of 2021; anticipation that for 2021, net capital expenditures will be approximately 75% of adjusted funds flow; 2021 capital spending and allocation thereof; anticipated net debt to AFF by end of 2021; average production for gas and liquids; royalty rate; operating expense; transportation expense and G&A/Finance expense for 2021; Advantage's ability to grow 2021 adjusted funds flow based on current natural gas futures pricing; the expected amount of adjusted funds flow; 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; the anticipation that the compressor and liquids hub will be full for the remainder of 2020; 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; the Corporation's current and future hedging program; future exchange rates; royalty rates; future operating costs; future transportation costs and availability of product transportation capacity; availability of skilled labor; availability of drilling and related equipment; timing and amount of net capital expenditures; the number of new wells required to achieve the budget objectives; that the Corporation will have sufficient adjusted funds 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 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 therefrom. 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 and sustaining capital, 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. 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", "free cash flow", "net debt", "operating netback", "working capital deficit" 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.

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.

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 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*
mmbtu	*million British thermal units*
mmcf/d	*million cubic feet 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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