Advantage Announces First Quarter 2021 Financial and Operating Outperformance

(TSX: AAV)

CALGARY, AB, April 29, 2021 /CNW/ - Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to report first quarter 2021 results including record production, significant free cash flow[(a)] and a material reduction in net debt[(a)].

Results from Advantage's winter drilling program have continued to exceed expectations both in costs and well performance while gas prices were elevated during the quarter, strengthening our financial outlook and guidance for 2021. Drilling in the first quarter of 2021 was entirely gas-focused at Glacier where wells continued to achieve a step change in productivity with cost reductions of over 10%. All wells from the program are utilizing existing capacity at Advantage's owned and operated Glacier Gas Plant, where incremental operating expenses of new production are minimal.

Operating and Financial Highlights for the Quarter include:

- Cash provided by operating activities was $51.6 million
- Net capital expenditures[(a)] were $37.2 million
- Adjusted funds flow ("AFF")[(a)] was $54.0 million ($0.29 per share), exceeding capital by 45%
- Free cash flow[(a)] was $16.8 million representing 31% of AFF[(a)]
- Net debt[(a)] was reduced to $214.5 million, a reduction of $150.4 million from the first quarter of 2020 and $36.9 million from the fourth quarter of 2020
- Reduced net debt to AFF[(a)] ratio to 1.7x
- Record total production of 49,819 boe/d, up 7% over first quarter 2020
- Record gas production of 271 mmcf/d, up 6% from first quarter 2020
- Liquids production of 4,609 bbls/d (1,395 bbls/d crude oil, 721 bbls/d condensate, 2,493 bbls/d NGLs), up 24% from first quarter 2020
- Maintained low cash costs including operating costs of $2.45/boe
- Increased operating netbacks[(a)] to $14.14/boe, up 59% from first quarter 2020

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.

Operational Update

- Glacier well outperformance and available Glacier Gas Plant capacity provides flexibility to continue capitalizing on higher natural gas prices
- Five additional Glacier wells are scheduled to be completed and tied-in during the third quarter of 2021
- Fourteen additional wells are scheduled to be drilled in the second half of 2021 with the primary focus remaining at Glacier
- The northwest segment of the Glacier gas gathering system has been expanded and was commissioned in early April, increasing capacity and eliminating restrictions on existing and future well pads
- Liquids production has been stable for the last four quarters but is expected to decline slightly during the remainder of the year as our capital program is primarily focused on gas development at Glacier.

Marketing Update

Advantage has hedged approximately 41% of its natural gas production for this summer and 37% of its natural gas production for calendar 2021. These hedges are fixed price swaps denominated at AECO, Henry Hub, Dawn and Chicago, reflective of the markets in our natural gas diversification strategy. Advantage has 46% of its crude oil and condensate production hedged for the remainder of 2021 with WTI swaps at an average price of US$48.54/bbl.

Looking Forward

Advantage's strong first quarter 2021 results are consistent with and reinforce the Corporation's recently revised 2021 guidance with lower capital and higher production. During the second quarter of 2021, Advantage expects to generate significant free cash flow due to planned low capital spending of less than $10 million. This is anticipated to further reduce the Corporation's net debt to AFF[(a)] ratio towards 1x. For 2021, free cash flow[(a)], debt reduction and moderate production growth remain key priorities. In addition, the Corporation is targeting to deliver approximately 10% annual production growth and $70 million free cash flow[(a)]. Advantage will continue to fortify its balance sheet and maximize returns for our shareholders by executing on its strategy to:

- Continue to deliver moderate production growth (between 5% and 10%) utilizing existing capacity at our Glacier Gas Plant

- Enhance corporate resilience and scale through:
  - balancing our high exposure to gas pricing by growing our liquids production at Progress and Wembley
  - revenue-generating cleantech investments through Entropy Inc. that will leverage our carbon capture and sequestration technology and expertise
- acquisitions that create efficiencies and scale
- Potentially return capital to shareholders

Financial & Operating Summary

Financial Highlights	**Three months ended March 31**	
($000, except as otherwise indicated)	**2021**	**2020**
Financial Statement Highlights		
Sales including realized derivatives	**$ 94,797**	$ 65,772
Net loss and comprehensive loss	**$ (425)**	$ (266,519)
per basic share [2]	**$ 0.00**	$ (1.43)
Basic weighted average shares (000)	**188,113**	186,911
Cash provided by operating activities	**$ 51,566**	$ 20,826
Cash provided by (used in) financing activities	**$ (7,548)**	$ 34,960
Cash used in investing activities	**$ 15,069**	$ 65,221
Other Financial Highlights		
Adjusted funds flow [1]	**$ 53,978**	$ 32,093
per boe [1]	**$ 12.04**	$ 7.59
per basic share [1][2]	**$ 0.29**	$ 0.17
Net capital expenditures [1]	**$ 37,185**	$ 93,630
Working capital (surplus) deficit [1]	**$ (25,924)**	$ 34,284
Bank indebtedness	**$ 240,428**	$ 330,644
Net debt [1]	**$ 214,504**	$ 364,928

(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.

Operating Highlights	**Three months ended March 31**	
	2021	**2020**
Operating		
Daily Production		
Crude oil (bbls/d)	**1,395**	1,172
Condensate (bbls/d)	**721**	979
NGLs (bbls/d)	**2,493**	1,563
Total liquids production (bbls/d)	**4,609**	3,714
Natural gas (mcf/d)	**271,262**	256,463
Total production (boe/d)	**49,819**	46,458
Average realized prices (including realized derivatives)		
Natural gas ($/mcf)	**$ 3.07**	$ 2.11
Crude oil ($/bbl)	**$ 46.90**	$ 60.82
Condensate ($/bbl)	**$ 69.76**	$ 60.42
NGLs ($/bbl)	**$ 42.53**	$ 32.98
Operating Netback ($/boe)		
Petroleum and natural gas sales from production	**$ 22.16**	$ 15.18
Realized gains (losses) on derivatives	**(0.87)**	0.38
Royalty expense	**(1.13)**	(0.89)
Operating expense	**(2.45)**	(2.28)
Transportation expense	**(3.57)**	(3.50)
Operating netback [1]	**$ 14.14**	$ 8.89

(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 months endedMarch 31, 2021 together with the notes thereto, and Management's Discussion and Analysis for the three months ended March 31, 2021 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, priorities and development plans; timing for wells to come on-stream at Glacier; number of wells planned for the second half of 2021 and the primary focus; liquids production is expected to decline slightly for the remainder of 2021; Advantage's hedging program; Advantage's expectation to generate significant free cash flow in the second quarter of 2021 and Advantage's go-forward strategy, their reasons therefor and the results and benefits to be derived therefrom; and the Corporation's targeted annual production growth and free cash flow. 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.

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", "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.

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 March 31	
($000)	2021	2020
Cash used in investing activities	$ 15,069	$ 65,221
Changes in non-cash working capital	2,116	28,409
Project funding received	20,000	-
Net capital expenditures	$ 37,185	$ 93,630

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. A detailed calculation of net debt

is provided below:

($000)	March 31 2021	December 31 2020
Bank indebtedness (non-current)	$ 240,428	$ 247,105
Working capital (surplus) deficit	(25,924)	4,292
Net debt	$ 214,504	$ 251,397

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. 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 March 31	
($000, except as otherwise indicated)	2021	2020
Cash provided by operating activities	$ 51,566	$ 20,826
Expenditures on decommissioning liability	14	179
Changes in non-cash working capital	2,398	11,088
Adjusted funds flow	$ 53,978	$ 32,093

Net Debt to Adjusted Funds Flow

Net debt to adjusted funds flow is calculated by dividingnet 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 bank debt if it devoted all its adjusted funds flow to bank debt repayment.

Free Cash Flow

Free cash flow is calculated as adjusted funds flow less net capital expenditures. Free cash flow is a useful measure of Advantage's ability to settle outstanding debt and obligations.

Operating Netback

Advantage calculates operating netback on a per boe basis. Operating netback is comprised of sales revenue, realized gains (losses) on derivatives, 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 March 31			
	2021		2020	
	$000	per boe	$000	per boe
Petroleum and natural gas sales from production	$ 99,373	$ 22.16	$ 64,185	$ 15.18
Realized gains (losses) on derivatives	(3,901)	(0.87)	1,587	0.38
Royalty expense	(5,087)	(1.13)	(3,755)	(0.89)
Operating expense	(10,985)	(2.45)	(9,647)	(2.28)
Transportation expense	(16,000)	(3.57)	(14,804)	(3.50)

Operating netback	$	63,400	$	14.14	$	37,566	$	8.89

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

bbl	*one barrel*
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*
mmcf/d	*million cubic feet per day*
Crude oil and condensate	*Light crude oil and medium crude oil as defined in NationalInstrument 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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