


A D V A N T A G E

ENERGY INCOME FUND

Advantage Energy Income Fund was created through the reorganization of Search Energy Corp. into an oil and gas income fund. The move was unanimously recommended by the Board of Directors of Search, and was approved by Search shareholders at a meeting on May 23, 2001.

INCOME FUNDS HAVE BECOME
AN IMPORTANT SECTOR IN THE
CANADIAN OIL AND GAS INDUSTRY
FOR THEIR ROLE IN PROVIDING
INVESTORS WITH REGULAR,
TAX-EFFECTIVE INCOME.



ADVANTAGE TO UNITHOLDERS

- Shareholders of Search received one Advantage trust unit in exchange for four common shares of Search pursuant to a reorganization effective May 23, 2001.
- Unitholders will receive monthly cash distributions. The record date for distributions will be the last business day of each month, payable on or about the 15th of the next month.
- Advantage has announced two cash distributions, each in the amount of \$0.28 per unit, payable on July 16 and August 15 to Unitholders of record on July 3 and July 31, respectively.
- Distributions to Unitholders are subject to a lower rate of income tax than alternate investment vehicles, and are eligible for RRSPs and RRIFs.
- Advantage units trade on the Toronto Stock Exchange under the symbol AVN.UN.

Background to the Fund

Creation of Advantage Energy Income Fund

- Advantage Energy Income Fund was formed as an income fund on May 23, 2001 as a result of the conversion of Search Energy Corp. into a Royalty Trust.
- The purpose of the conversion was to create a trust entity which distributes substantially all of its cash flow to Unitholders on a monthly basis.
- The trust will minimize exposure to exploration risk while focusing on growth through the acquisition and development of producing oil and natural gas properties.
- In July 2001, Advantage completed a major acquisition which added substantial production and reserves.

Management Team

The Fund will be managed by Advantage Investment Management Ltd., a 100% Canadian-owned, privately-held management company.

- Offices in Calgary and Toronto.
- 40 years combined royalty trust experience including:
 - Finance and capital markets
 - Over \$2 billion of corporate and asset acquisitions
 - Production, operations and exploitation
 - Investor relations

Strategy for the Fund

- Distribute a high proportion of cash flow to Unitholders on a monthly basis.
- Acquire properties that increase the reserve life index, provide low risk development opportunities and enhance long-term cash flow.
- Increase production through low risk exploitation and development drilling.
- Maintain a conservative balance sheet to ensure financial flexibility.

Cash Distributions

The Fund has paid two distributions to Unitholders, each at \$0.28 per unit, payable on July 16 and August 15 to Unitholders of record on July 3 and July 31, respectively.

Break down of cash flow from operations per boe (based on results for the reported period)

Crude oil and natural gas sales	\$30.97	<ul style="list-style-type: none"> • The Fund's low cost structure means that total operating, administration and management fee expenses made up less than 21% of gross revenue per boe. • The low cost structure combined with the high quality production base results in high netbacks.
Government and other royalties	- \$ 5.55	
Operating costs	- \$ 5.09	
Management fees and administration	- \$ 1.35	
Interest and taxes	- \$ 0.79	
Cash flow from operations	\$18.19	<ul style="list-style-type: none"> • Cash flow from operations represented 59% of gross revenue.

The recent weakness in natural gas prices has reduced the amount of cash available to the Fund for distribution. As a result, the September 15 cash distribution has been set at \$0.22 per unit payable to Unitholders of record on August 31.

In addition, the Board of Directors has set the October 15 cash distribution at \$0.22 per unit.

Activity Since Inception on May 23, 2001

Acquisition Boosts Production

- On July 26, 2001, Advantage closed the acquisition of a private oil and natural gas company for \$57.8 million.
- Production increased by 1,650 boe/d comprised of:
 - 660 bbls/d light oil
 - 90 bbls/d natural gas liquids
 - 5,400 mcf/d natural gas
- The acquired properties generate exceptional netbacks due to:
 - High quality production – high API gravity crude oil & natural gas
 - Low operating costs – \$4.40/boe
 - Low royalty rates – approximately 16%

Acquisition Strengthens Reserve Base

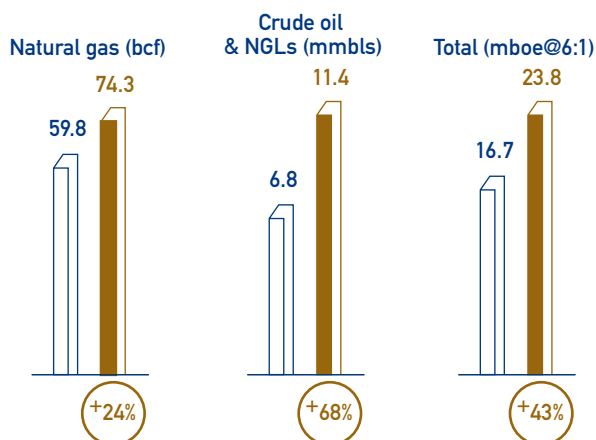
- The acquisition has diversified Advantage’s reserve base and enhanced long-term cash flow.
- Natural gas and light oil now make up 84% of the Fund’s established reserve base.

	Inception May 23, 2001	Post-acquisition July 26, 2001
Natural gas	60%	52%
Light oil	17%	32%
Heavy oil	23%	16%

- Established reserve additions of 7.1 million boe replaced over 3 years of annual production.
- Acquired reserves have an established reserve life index of 12 years; over 90% are classified as Proved.

Growth in Established Reserves

- Inception – May 23, 2001
- Post acquisition – July 26, 2001



Drilling Update

Vermilion Shallow Gas Area

- Through ongoing drilling, the Fund has the right to earn interests in approximately 230 sections of land near Vermilion, Alberta.
- The area has high productivity, multi-zone potential and relatively low drilling costs of about \$160,000 per well.
- Commencing in the third quarter, six wells were drilled in an eight-well program. Four wells have been completed and initial test results are very encouraging.
- Facilities construction is underway and production is expected to commence by the end of the third quarter.
- Additional 2D and 3D seismic data is being acquired to evaluate additional shallow gas potential. Further drilling is planned later this year and into 2002.

Advantage Highlights

(\$000's except per unit data)

For the period May 24 to June 30, 2001

FINANCIAL

Oil and natural gas liquids revenue	\$	3,116
Natural gas revenue	\$	4,318
Total revenue	\$	7,434
Cash flow	\$	4,365
Per unit (basic and fully diluted)	\$	0.34
Net income	\$	1,962
Per unit (basic and fully diluted)	\$	0.15
Cash distribution to Unitholders	\$	3,594
Per unit	\$	0.28
Capital expenditures	\$	171
Long-term debt	\$	27,650
Working capital	\$	(6,895)
Unitholders' equity	\$	61,929
Debt to annualized cash flow		0.7
Units outstanding (000's)		12,834

OPERATING

Daily production		
Light oil and natural gas liquids (bbls/d)		1,364
Heavy oil (bbls/d)		1,336
Natural gas (mcf/d)		21,699
Total (boe/d 6:1)		6,316
Average price		
WTI (US\$/bbl)	\$	27.80
Cdn posting (\$/bbl)	\$	42.32
Light oil and natural gas liquids (\$/bbl)	\$	36.87
Heavy oil (\$/bbl)	\$	22.69
Natural gas (\$/mcf)	\$	5.30
Total (\$/boe 6:1)	\$	30.97
Operating netback (\$/boe)	\$	20.33

Advantage Management's Discussion and Analysis

The following MD&A provides a detailed explanation of Advantage's ("Advantage" or the "Fund") financial and operating results for the period May 24, 2001 to June 30, 2001 and should be read in conjunction with the financial statements contained within this interim report. Actual results are compared to the 2001 Forecast (the "Forecast") contained within Search Energy Corp.'s Information Circular dated April 18, 2001.

All per barrel of oil equivalent ("boe") numbers are stated at a 6:1 conversion rate for natural gas to oil.

Production

Natural gas production volumes in the period ended June 30 averaged 21,699 mcf/d compared with 23,600 mcf/d in the Forecast. Natural gas production was lower than forecast due to scheduled maintenance of a compressor at North Pine/Stoddart and an unscheduled plant shut down at Wainwright. Crude oil and natural gas liquids production averaged 2,700 bbls/d compared with 2,643 bbls/d estimated in the Forecast.

Prices

During the period Advantage's natural gas prices averaged \$5.30 per mcf compared with \$6.50 per mcf in the Forecast. Natural gas prices have declined substantially from the record high levels received this past winter. This decline can be attributed to i) reduced demand for air conditioning due to the milder than normal summer in the U.S., ii) lower industrial demand resulting from the economic slowdown in North America and iii) increased production in the lower 48 states in response to higher prices. Prices have recovered slightly in recent weeks with the calendar 2002 AECO contract price trading between \$4.75 and \$5.00 per mcf. We continue to be bullish on prices as the near term supply side fundamentals have not changed, and natural gas remains the fuel of choice in supplying growing electricity demand due to its environmental and economic advantages.

Crude oil and natural gas liquids prices averaged \$29.85 per barrel compared with \$27.95 per barrel in the Forecast. Advantage's light oil and natural gas liquids averaged \$36.87 per barrel, while heavy oil production realized a price of \$22.69 per barrel. The posted price for WTI averaged US\$27.80 per barrel during the period. World oil prices have been relatively stable in the past year as OPEC has maintained prices within their US\$22 to US\$28 target band (which is equivalent to WTI US\$24 to US\$30 per barrel). Prices received for heavy oil have improved dramatically in recent weeks with the Koch/Lloyd Blend heavy oil price increasing from \$24.88 in June to \$34.17 per barrel currently.

The Fund does not currently have any significant crude oil or natural gas financial hedges in place.

Royalties

Royalties represent Crown, freehold and overriding burdens on the Fund's production. Royalty rates fluctuate with prices, with higher prices leading to higher Crown royalty rates. During the period Advantage's royalties were 18 percent of revenue as compared to 19 percent of revenue in the Forecast. The lower than forecasted rate was the result of lower natural gas prices received compared to the Forecast.

Operating Costs

Operating costs in the period ended June 30, 2001 averaged \$5.09 per boe compared with \$4.92 per boe in the Forecast.

General and Administrative

General and administrative expense averaged \$1.05 per boe which was comparable to the \$1.02 per boe in the Forecast.

Management Fees

Management fees averaged \$0.30 per boe which was comparable to the \$0.34 per boe in the Forecast.

Operating Netback

The Fund's operating netback during the period averaged \$20.33 per boe as compared to \$22.61 per boe in the Forecast. The lower netback realized is primarily the result of lower than forecasted natural gas prices, partially offset by higher crude oil prices.

Depletion, Depreciation and Site Restoration

The depletion, depreciation and site restoration rate for the period ended June 30 was \$9.33 per boe compared with \$7.98 per boe in the Forecast. The rate used to calculate depletion and depreciation is based on the balance of property and equipment brought forward from the balance sheet of Search Energy Corp.

Liquidity and Capital Resources

Capital expenditures for the period ending June 30 amounted to \$0.2 million.

The Fund has in place a \$95 million credit facility consisting of a revolving operating demand loan. Collateral for this line consists of a general security agreement in the amount of \$100 million covering all assets of the Fund. At June 30, 2001 Advantage had unutilized lines of credit of approximately \$67 million.

Outlook

Advantage's strategy is to minimize exposure to exploration risk while focusing on growth through the acquisition and development of producing oil and natural gas properties. Consistent with this strategy, on July 26, 2001 Advantage closed the acquisition of a private oil and gas company for a purchase price of \$57.8 million. The acquisition has added production of approximately 1,650 boe/d and increased the Fund's reserve life index by 14% to 8.1 years. In addition, the acquisition increased the Fund's established reserves by 43 percent and replaced 300 percent of the Fund's annual production.

Although natural gas prices have declined recently, the Fund remains bullish on the long-term economics of natural gas. Crude oil prices continue to be strong and the recent significant narrowing of heavy/light oil differentials will have a positive impact on Advantage's cash flow.

The foregoing information contains forward-looking statements with respect to Search and Advantage Energy Income Fund. By their nature, these statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated. These risks and uncertainties include commodity prices and differentials and other risks inherent to the oil and gas sector.

Advantage Financial Statements

Consolidated BALANCE SHEET

(\$000's, unaudited) As at June 30, 2001

ASSETS

Current assets

Accounts receivable	\$ 10,884
Deposit (note 5)	6,500

17,384

Property and equipment

133,962

151,346

LIABILITIES

Current liabilities

Bank indebtedness	1,335
Accounts payable and accrued liabilities	19,350
Cash distribution payable to Unitholders (note 4)	3,594

24,279

Long-term debt

27,650

Provision for future site restoration

1,906

Future income taxes

35,582

89,417

UNITHOLDERS' EQUITY

Unitholders' capital	44,936
Accumulated income	20,587
Accumulated cash distributions	(3,594)

61,929

\$ 151,346

Consolidated Statement of CASH DISTRIBUTION TO UNITHOLDERS

(\$000's, unaudited) For the period May 24 to June 30, 2001

Cash flow from operations	\$ 4,365
Cash reserved for capital expenditures and debt repayment	(771)
Cash distribution to Unitholders	\$ 3,594
Cash distribution per unit	\$ 0.28

See notes to the Interim Consolidated Financial Statements

Advantage Financial Statements

Consolidated Statement of INCOME and ACCUMULATED INCOME

(\$000's, unaudited) For the period May 24 to June 30, 2001

REVENUE	
Petroleum and natural gas sales	\$ 7,434
Royalties, net of Alberta Royalty Credit	(1,333)
	6,101
 EXPENSES	
Operating	1,221
General and administrative	251
Management fee (note 3)	73
Interest	157
Depletion, depreciation and site restoration	2,240
	3,942
Income before taxes	2,159
Future income taxes	163
Capital taxes	34
	1,962
Accumulated income, beginning of year	18,625
Accumulated income, end of period	\$ 20,587
 Net income per Trust Unit	
Basic and fully diluted	\$ 0.15
 Weighted average number of Trust Units outstanding	
Basic and fully diluted	12,834,282

Advantage Financial Statements

Consolidated Statement of CASH FLOWS

(\$000's, unaudited) For the period May 24 to June 30, 2001

OPERATING ACTIVITIES

Net income	\$	1,962
Add items not requiring cash:		
Future income taxes		163
Depletion, depreciation and site restoration		2,240
		4,365
Cash flow from operations		4,365
Changes in non-cash working capital		(2,245)
		2,120
Cash provided by operating activities		2,120

FINANCING ACTIVITIES

Unit issue costs		(11)
Increase in long-term debt		1,435
		1,424
Cash provided by financing activities		1,424

INVESTING ACTIVITIES

Expenditures on property and equipment		(171)
Changes in non-cash working capital		(6,407)
		(6,578)
Cash used in investing activities		(6,578)
Net decrease in cash		(3,034)
Cash, beginning of period		1,699
		\$ (1,335)

Cash flow from operations per Unit

Basic and fully diluted	\$	0.34
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Supplemental disclosure of cash flow information:

Cash interest paid	\$	157
Cash capital taxes paid	\$	210

Advantage Notes

Notes to the Interim Consolidated Financial Statements

(unaudited)

The Interim Consolidated Financial Statements of Advantage Energy Income Fund ("Advantage") have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of Search Energy Corp. for the year ended December 31, 2000 as set out in Search's Information Circular dated April 18, 2001.

1. SIGNIFICANT ACCOUNTING POLICIES

The interim Consolidated Financial Statements have been prepared based on the consistent application of the accounting policies and procedures as set out in the Financial Statements of Search Energy Corp. for the year ended December 31, 2000.

2. UNITHOLDERS' CAPITAL

(a) Authorized

(i) Unlimited number of trust units

(b) Issued

Period ended June 30, 2001

	Number of Units	Amount (\$000's)
Balance at beginning of period	12,834,282	44,936
Balance at end of period	12,834,282	44,936

3. MANAGEMENT FEES

In addition to the base management fee, the Manager of the Fund is also entitled to receive a Performance Fee at the end of the year based on distributions and unit price performance. The Performance Fee is calculated using the closing price of the fund units at December 31, 2001. Due to the uncertainty of determining the year-end unit price, this fee has not been accrued in these financial statements. It should also be noted that the Manager does not receive any form of compensation in respect of acquisition or divestiture activities.

4. CASH DISTRIBUTIONS

Cash distributions to Unitholders were paid as follows:

For the Period Ended	Record Date	Payment Date	Distribution (\$000's)	Distribution per Unit
June 30, 2001	July 3, 2001	July 16, 2001	\$ 3,594	\$ 0.28

5. SUBSEQUENT EVENT

On July 26, 2001 Advantage announced that it had closed the acquisition of a private oil and gas company. The purchase price of \$57.8 million was financed through existing lines of credit. Included on the June 30, 2001 balance sheet is a deposit of \$6.5 million, which was applied against the purchase price.


ADVANTAGE

ENERGY INCOME FUND

BOARD OF DIRECTORS

Gary F. Bourgeois
 Kelly I. Drader (2)
 Ronald A. McIntosh (3)
 Roderick M. Myers (2) (3)
 Steven Sharpe (1) (2)
 Lamont C. Tolley (1)
 Rodger A. Tourigny (1) (3)

(1) Member of Audit Committee
 (2) Member of Compensation Committee
 (3) Member of Independent Reserve Evaluation Committee

OFFICERS AND MANAGEMENT

Kelly I. Drader	<i>President and CEO Most recently as Senior VP, Enerplus Group (14 years), 20 years industry experience</i>
Patrick J. Cairns	<i>Senior Vice President Most recently as VP Evaluations, Enerplus Group (9 years), 24 years industry experience</i>
Gary F. Bourgeois	<i>Vice President Corporate Development Former Director, Enerplus Resources Fund (12 years), 15 years industry experience</i>
Jeff P. Jongmans	<i>Vice President Finance and CFO Most recently as CFO, Search Energy (5 years), 22 years industry experience</i>
Rick P. Mazurkewich	<i>Vice President Operations Most recently as Manager, Production and Facilities, Search Energy (3 years), 19 years industry experience</i>
Tony Takahashi	<i>Vice President Exploitation Most recently as Manager Acquisitions, Enerplus Group (5 years), 20 years industry experience</i>
Walter J. Vratovic	<i>Vice President Land and Negotiations Most recently as Land Manager, Search Energy (3 years), 10 years industry experience</i>
Jay P. Reid	<i>Corporate Secretary</i>

CORPORATE INFORMATION**EXECUTIVE OFFICES****CALGARY**

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BANKERS

National Bank of Canada
 Calgary, Alberta

The Bank of Nova Scotia
 Calgary, Alberta

ABBREVIATIONS

bbls – barrels
 bbls/d – barrels of oil per day
 mbbls – thousand barrels
 mmbbls – million barrels
 boe – barrels of oil equivalent (6 mcf = 1 bbl)
 mboe – thousand barrels of oil equivalent
 boe/d – barrels of oil equivalent per day
 mcf – thousand cubic feet
 mmbtu – million British thermal units
 mcf/d – thousand cubic feet per day
 mmcf – million cubic feet
 mmcf/d – million cubic feet per day
 bcf – billion cubic feet
 GJ – gigajoules
 NGLs – natural gas liquids
 WTI – West Texas Intermediate

SOLICITORS

Burnet, Duckworth
 & Palmer LLP
 Calgary, Alberta

AUDITORS

Ernst & Young LLP
 Chartered Accountants
 Calgary, Alberta

INDEPENDENT ENGINEERS

Sproule Associates Limited
 Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare
 Trust Company of Canada
 Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
 Symbol: AVN.UN