



ADVANTAGE

ENERGY INCOME FUND

2004 FIRST QUARTER REPORT



Q1

FINANCIAL AND OPERATING HIGHLIGHTS

(thousands of dollars except per Unit amounts)

	For the three months ended March 31, 2004	For the three months ended March 31, 2003
Financial		
Revenue before royalties	\$ 53,836	\$ 42,079
per Unit ⁽¹⁾	\$ 1.42	\$ 1.49
per boe	\$ 38.29	\$ 38.87
Cash flow from operations	\$ 32,000	\$ 25,141
per Unit ⁽¹⁾	\$ 0.84	\$ 0.89
per boe	\$ 22.76	\$ 23.22
Cash available for distribution ⁽³⁾	\$ 29,900	\$ 23,809
per Unit ⁽²⁾	\$ 0.79	\$ 0.84
per boe	\$ 21.27	\$ 21.99
Net income	\$ 6,972	\$ 15,578
per Unit	\$ 0.13	\$ 0.50
Cash distributions	\$ 26,267	\$ 18,228
per Unit ⁽²⁾	\$ 0.69	\$ 0.64
Working capital (deficit)	\$ 20,166	\$ 9,064
Bank debt	\$ 136,155	\$ 120,397
Convertible debentures	\$ 95,218	\$ 47,312
Operating		
Production		
Natural gas (mcf/d)	75,649	54,497
Light oil and NGLs (bbls/d)	2,841	2,946
Total boe/d @ 6:1	15,449	12,029
Average prices (including hedging)		
Natural gas (\$/mcf)	\$ 6.28	\$ 6.18
Light oil & NGLs (\$/bbl)	\$ 40.93	\$ 44.34
Supplemental		
Trust Units outstanding at end of period	38,167	28,779
Trust Units issuable for Convertible Debentures	5,840	3,557
Trust Units outstanding and issuable for Convertible Debentures at end of period	44,007	32,336
Weighted average Units outstanding during the period	37,981	28,322

⁽¹⁾ based on weighted average number of Trust Units outstanding

⁽²⁾ based on number of Trust Units outstanding at each cash distribution date

⁽³⁾ cash flow from operations less interest on convertible debentures

CASH DISTRIBUTIONS TO UNITHOLDERS

- ◆ The Fund declared three distributions during the quarter totalling \$0.69 per Unit. The distributions amounted to \$0.23 per Unit, payable on February 17, March 15 and April 15 to Unitholders of record on January 30, February 27 and March 31 respectively.
- ◆ Cash available for distribution for the first quarter was \$29.9 million or \$0.79 per Unit compared to the amount reported in Q1 2003 of \$0.84 per Unit and represents a payout ratio of 88% of total cash available for distribution.

OIL & NATURAL GAS PRODUCTION

- ◆ Production volumes increased by 28% to 15,449 boe/d in the first quarter of 2004 from 12,029 boe/d in the first quarter of 2003.

NATURAL GAS

- ◆ Natural gas production for the first quarter of 2004 was 75.6 mmcf/d, a 39% increase over the 54.5 mmcf/d reported in the first quarter of 2003.
- ◆ The acquisition of MarkWest Resources, which closed December 2, 2003, added approximately 20 mmcf/d of new natural gas production in the first quarter of 2004.
- ◆ During the first quarter of 2004 Advantage drilled 34.4 net (38 gross) wells resulting in 30.5 net (32 gross) natural gas wells, 1 net (1 gross) dry hole and 2.9 net (5 gross) untested wells.

CRUDE OIL & NGLS

- ◆ Crude oil and natural gas liquids production averaged 2,841 bbls/d compared to 2,946 bbls/d in the first quarter of 2003 representing a decline of 4%. First quarter 2003 oil production included 240 bbls/d related to a minor property disposition that occurred in the fourth quarter of 2003.
- ◆ The acquisition of MarkWest Resources partially offset this decline adding 461 bbls/d of oil and NGL production in Q1 2004.
- ◆ During the first quarter the Fund drilled 3.7 net (6 gross) successful oil wells.

DEVELOPMENT ACTIVITY

MEDICINE HAT

- ◆ A total of 57 net (57 gross) natural gas wells have been drilled during Q4 2003 and Q1 2004 (30 wells and 27 wells, respectively) with a 100% success rate. Total costs incurred on these wells was \$8.0 million (\$2.0 million in Q4 2003 and \$6.0 million in Q1 2004).
- ◆ An additional 9 net (9 gross) wells will be drilled in the second quarter.
- ◆ Pipelines and compression facilities were installed during the first quarter in order to process additional production from the new wells at a cost of \$3.7 million.
- ◆ As the result of an early spring break-up, completion and tie-in of these wells has been delayed and it is expected that these wells will all be on-stream by the end of the second quarter of 2004.

BANTRY

- ◆ During the first quarter the Fund drilled 3.9 net (7 gross) wells at Bantry bringing the total number of wells drilled to 14.5 net (25 gross) since the property was acquired in December 2003.
- ◆ A total of 11.3 net (19 gross) wells have been tested resulting in 8.8 net (15 gross) natural gas wells. The remaining wells will be tested when spring break-up is completed.
- ◆ It is anticipated that the successful wells will be tied-in and on production by the end of the second quarter.
- ◆ In addition the Fund expended approximately \$4.5 million on pipelines and compression in the first quarter to expand the productive capacity of the field.
- ◆ 25 additional well locations have been identified for drilling over the balance of 2004.

OTHER AREAS

- ◆ At Shouldice, Alberta the Fund commenced a 38 well drilling program late in the first quarter. New production from this program will be added in the third quarter. In addition, the Fund expended \$1.5 million to enhance the productive capacity of the field for this program.
- ◆ At Nevis, Alberta the Fund drilled three successful 100% working interest horizontal oil wells which came on-stream late March and early April.
- ◆ At Princess, Alberta a 50% working interest natural gas well was drilled and is expected to be on production late in the second quarter.

MANAGEMENT'S DISCUSSION & ANALYSIS

The following MD&A provides a detailed explanation of the financial and operating results of Advantage Energy Income Fund ("Advantage" or "the Fund") for the quarter ended March 31, 2004 and should be read in conjunction with the financial statements contained within this interim report and the audited financial statements and MD&A for the year ended December 31, 2003.

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

CASH DISTRIBUTIONS

Cash distributions per Unit for the three months ended March 31, 2004 were \$0.69 per Unit, or \$26.3 million, an increase of 8% over the \$0.64 per Unit paid in the first quarter of 2003. The first quarter 2004 distributions were comprised of \$0.23 per month for each of January, February and March. The amount distributed for the quarter represents 88% of total cash available for distribution. Cash available for distribution is defined as cash flow from operations less interest on convertible debentures. The remaining cash withheld of \$3.6 million was used to partially finance the Fund's ongoing capital expenditure program. Since its inception on May 23, 2001 the Fund has distributed \$178.7 million or \$6.58 per Unit.

Cash distributions to Unitholders were paid as follows:

Period ended	Record date	Payment date	Distribution	Distribution per Unit
Jan. 31, 2004	Jan. 30, 2004	Feb. 17, 2004	\$ 8,734	\$ 0.23
Feb. 29, 2004	Feb. 27, 2004	March 15, 2004	\$ 8,755	0.23
Mar. 31, 2004	Mar. 31, 2004	Apr. 15, 2004	\$ 8,778	0.23
			\$ 26,267	\$ 0.69

PRODUCTION

During the three months ended March 31, 2004 Advantage's natural gas production increased by 39% to 75.6 mmcf/d compared to 54.5 mmcf/d for the quarter ended March 31, 2003 and by 10.3 mmcf/d or 16% over the fourth quarter of 2003. The increase in natural gas production is primarily due to the acquisition of MarkWest Resources on December 2, 2003. MarkWest added approximately 20 mmcf/d of new natural gas production to Advantage. Additional natural gas production related to the Fund's active first quarter drilling program are expected to come on-stream late in the second quarter.

Crude oil and natural gas liquids production averaged 2,841 bbls/d in the first quarter of 2004 compared to 2,946 bbls/d for the quarter ending March 31, 2003. The 4% decline in production from the first quarter of 2003 is due to a minor property disposition of approximately 240 bbls/d and natural declines partially offset by the acquisition of MarkWest Resources on December 2, 2003.

PRICES

During the three months ended March 31, 2004 Advantage's natural gas price averaged \$6.28 per mcf (\$6.28 per mcf including hedging) compared to \$7.65 per mcf (\$6.18 per mcf including hedging) in the first quarter of 2003. Advantage did not have natural gas hedges in place during the first quarter of 2004. For the three months ended March 31, 2004 AECO daily prices averaged \$6.36 per mcf compared to \$7.95 per mcf in the same period in 2003.

Natural gas prices have remained relatively strong during the first quarter of 2004. Continued strength of natural gas has been attributed to (i) the strength of crude oil prices which has eliminated the economic advantage of fuel switching away from natural gas, (ii) the potential for a hotter than normal summer and reduced coal inventories which may increase demand for gas-fired power generation and (iii) the US economy is showing signs of sustained growth which will add to non-weather demand for natural gas. Advantage continues to believe the pricing fundamentals for natural gas remain strong.

Crude oil and NGLs prices averaged \$40.93 per barrel (\$40.93 per barrel including hedging) in the first quarter of 2004 compared to \$45.74 per barrel (\$44.34 per barrel including hedging) in the three months ended March 31, 2003. Advantage had no crude oil hedges in place in the first quarter of 2004. First quarter 2004 prices for WTI crude oil averaged US\$35.15 per barrel, 4% higher than the US\$33.80 per barrel realized during the first quarter of 2003. Partially offsetting the increase in WTI prices was a stronger Canadian dollar which averaged \$US/\$Cdn \$0.76 in the first quarter of 2004 compared to \$0.66 in the first quarter of 2003.

Crude oil prices continued to be strong during the first quarter of 2004. Factors that affect the continued strength of crude oil include (i) continued conflict in the middle east, (ii) low global inventory levels and (iii) strong world oil demand. All of these factors are expected to keep crude oil prices high for the remainder of the year.

HEDGING

Advantage had no hedging contracts related to first quarter 2004 production. The Fund currently has the following hedge contracts in place:

Volume	Effective Period	Average Price
Natural gas - AECO		
50,350 mcf/d	April 1, 2004 - December 31, 2004	\$ 6.12/mcf
10,450 mcf/d	January 1, 2005 - March 31, 2005	\$ 6.30/mcf

At March 31, 2004 the mark to market valuation of Advantage's outstanding hedges was a loss of \$11.1 million. This amount has been included in the income statement as an unrealized hedging loss with a corresponding hedging liability recorded on the balance sheet. Advantage will continue to maintain a hedging program in order to add stability to the level of cash distributions to Unitholders.

ROYALTIES

During the first quarter of 2004 Advantage's royalties amounted to \$10.6 million (19.6% of pre-hedged revenue) compared to \$8.2 million (16.5% of pre-hedged revenue) in the first quarter of 2003. Total royalties in 2004 are higher as a result of higher revenues. The increase in the royalty rate in 2004 is the result of the acquisition of MarkWest Resources properties in December 2003 which attract higher royalty rates than other Advantage properties. Advantage expects royalty rates to approximate 20% for the balance of 2004.

OPERATING COSTS

Operating costs for the three months ended March 31, 2004 amounted to \$8.3 million or \$5.92 per boe compared to \$5.5 million or \$5.09 per boe in the first quarter of 2003. Operating costs steadily increased throughout 2003 due to higher power costs and higher field costs associated with the shortage of supplies, services and materials that have occurred as a result of very high levels of industry activity. Advantage's increased operating costs over 2003 are in line with overall industry trends.

GENERAL AND ADMINISTRATIVE AND MANAGEMENT FEES

General and administrative (G&A) expense in the first quarter of 2004 amounted to \$0.8 million or \$0.60 per boe compared to \$0.8 million or \$0.76 per boe in the first quarter of 2003. Total G&A expense in the first quarter was unchanged from the prior year while G&A per boe declined by 21% as a result of increased production.

Management fees for the three months ended March 31, 2004 amounted to \$0.5 million or \$0.37 per boe compared to \$0.4 million or \$0.39 per boe in the first quarter of 2003. Management fees are calculated based on 1.5% of operating cash flow which is defined as revenue less royalties and operating costs.

The Manager of the Fund is entitled to earn a performance incentive fee which is calculated at the end of each year based on the total return of the Fund. At March 31, 2004 no amount was paid to the Manager, nor is the Manager entitled to receive any payment related to the Fund's performance for the first three months of 2004 as the actual amount is calculated and paid on an annual basis only. If the performance fee was paid at March 31, 2004, based on the performance of the Trust in the first quarter, the total fee payable would be \$5.6 million. The Trust has accrued one quarter of this amount or \$1.4 million for the first quarter of 2004. There is no certainty that the fee accrued in the financial statements will be paid at year end. Any performance incentive fee paid to the Manager at year end is expected to be settled in Advantage Trust Units.

INTEREST

Interest expense for the three months ended March 31, 2004 amounted to \$1.3 million (\$0.91 per boe) compared to \$1.6 million (\$1.47 per boe) for the first quarter of 2003. Lower interest expense in the first quarter of 2004 is the result of lower average bank debt balances in 2004 combined with lower interest rates.

TAXES

Current taxes are comprised primarily of capital tax, which amounted to \$0.3 million for the three months ended March 31, 2004 compared to \$0.4 million for the same period of 2003. Capital taxes are determined based on debt and equity levels at the end of the year. As a result of new legislation in 2003, capital taxes are to be gradually eliminated over the next five years.

For the three months ended March 31, 2004 a future income tax recovery of \$7.8 million was included in income compared to a \$3.1 million recovery for the comparable period in 2003. On March 31, 2004, Bill 27 Alberta Corporate Tax Amendment Act, 2004, which reduces the corporate provincial tax rate by 1%, was tabled and received first reading in the Alberta Legislative Assembly. As a result Bill 27 is substantively enacted and a non-recurring benefit of \$2.2 million was recorded in the first quarter of 2004. There was no similar tax rate adjustment to income tax expense in the first quarter of 2003.

CASH FLOW NETBACK

Breakdown of cash flow per boe	Three months ended March 31, 2004		Three months ended March 31, 2003	
	(\$000)	(per boe)	(\$000)	(per boe)
Crude oil & natural gas sales	\$ 53,836	\$ 38.29	\$49,638	\$45.84
Hedging gains (losses)	-	-	(7,559)	(6.98)
Government & other royalties	(10,552)	(7.51)	(8,196)	(7.57)
Operating costs	(8,320)	(5.92)	(5,514)	(5.09)
Operating netback	34,964	24.86	28,369	26.20
General and administrative	(846)	(0.60)	(825)	(0.76)
Management fees	(525)	(0.37)	(425)	(0.39)
Interest & taxes	(1,593)	(1.13)	(1,978)	(1.83)
Cash flow from operations	\$ 32,000	\$ 22.76	\$25,141	\$23.22
Interest on convertible debentures	(2,100)	(1.49)	(1,332)	(1.23)
Cash available for distribution	\$ 29,900	\$ 21.27	\$23,809	\$21.99

DEPLETION, DEPRECIATION AND ACCRETION OF ASSET RETIREMENT OBLIGATION

The depletion, depreciation and accretion (D,D&A) rate for the first quarter of 2004 was \$14.24 per boe compared to \$10.63 per boe for the first quarter of 2003. The D,D&A rate per boe increased in the first quarter of 2004 compared to the first quarter of 2003 due the acquisition of MarkWest Resources and revisions to the Fund's total proven reserves pursuant to National Instrument 51-101. Included in D,D&A is \$0.2 million of accretion of the asset retirement obligation. Costs subject to depletion include \$7.1 million relating to the capitalized portion of the asset retirement obligation in the first quarter of 2004. The retroactive application of the new accounting policy for asset retirement obligations requires restatement of prior periods, which resulted in the first quarter 2003 D,D&A rate to increase to \$10.63 per boe compared to the previously reported rate of \$10.59 per boe and D,D&A expense to increase by \$0.2 million.

FINANCIAL REPORTING UPDATE

Hedging Relationships

Effective in the Fund's first quarter of 2004, the new CICA Accounting Guideline 13 "Hedging Relationships" requires that hedging relationships be identified, designated, documented and measured in order for the Fund to apply hedge accounting. Although the Fund believes that all of the hedges Advantage enters into are effective economic hedges, Advantage has elected to not use hedge accounting. The Fund will be using the fair value method to account for all of its hedge transactions. This method requires Advantage to mark to market at the balance sheet date the fair value of all outstanding hedges. At March 31, 2004 the mark to market valuation of Advantage's outstanding hedges was a loss of \$11.1 million. This amount has been included in the income statement as an unrealized hedging loss with a corresponding hedging liability recorded on the balance sheet.

Asset Retirement Obligations

In March 2003 the CICA issued handbook section 3110 "Asset Retirement Obligations" which requires liability recognition for retirement obligations associated with the Fund's property and equipment. The obligations are initially measured at fair value, which is the discounted future value of the liability. The fair value is capitalized as part of the cost of the related assets and depleted to earnings over the assets useful life. The liability accretes until the retirement obligations are settled. Advantage adopted the new standard in the first quarter of 2004. The impact to the Trust of the implementation of this policy is disclosed in note 1 (b) of the March 31, 2004 financial statements.

Full Cost Accounting

Effective January 1, 2004 the Trust adopted CICA accounting guideline 16 "Oil and Gas Accounting – Full Cost". This accounting guideline replaced CICA accounting guideline 5, "Full cost accounting in the oil and gas industry". Accounting guideline 16 modifies how the ceiling test calculation is performed. The recoverability of a cost centre is tested by comparing the carrying value of the cost centre to the sum of the undiscounted cash flows expected from the cost centre. If the carrying value is not recoverable the cost centre is written down to its fair value. Adopting accounting guideline 16 had no effect on the Trust's financial results.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Trust has contractual obligations in the normal course of operations including purchase of assets and services, operating agreements, transportation commitments and sales contracts. These obligations are of a recurring and consistent nature and impact cash flow in an ongoing manner. The following is a summary of the Fund's contractual obligations and commitments:

(\$millions)	Total	Payments due by period			
		2004	2005-2006	2007-2008	2009 & thereafter
Building lease	\$ 3.5	\$ 0.8	\$ 1.6	\$ 1.1	-
Capital lease	\$ 2.7	\$ 0.4	\$ 0.9	\$ 1.4	-
Pipeline/transportation	\$ 4.3	\$ 0.6	\$ 2.1	\$ 1.2	\$ 0.4
Total contractual obligations	\$ 10.5	\$ 1.8	\$ 4.6	\$ 3.7	\$ 0.4

LIQUIDITY AND CAPITAL RESOURCES

Advantage's capital expenditures on development activities for the quarter ending March 31, 2004 were \$29.4 million net of \$0.8 million of minor property dispositions. Expenditures were focused on drilling, completions, pipelines and compression at Medicine Hat, Bantry, Nevis and Shouldice. A total of 44 (39.6 net) wells were drilled during the first quarter of 2004. Production from this drilling program is anticipated to come on-stream late in the second quarter of 2004.

Sources and Uses of Funds (\$ thousands)

	Three months ended March 31, 2004
Sources of funds	
Cash flow from operations	\$ 32,000
Units issued, net of costs	116
Increase in bank debt	33,187
Property dispositions	791
	<u>\$ 66,094</u>
Uses of funds	
Capital expenditures	\$ 30,202
Distributions paid to Unitholders	25,934
Interest paid to debenture holders	1,644
Increase in working capital	8,174
Other	140
	<u>\$ 66,094</u>

Total bank debt outstanding at March 31, 2004 was \$136.2 million. Advantage has an agreement with a syndicate of three Canadian chartered banks that provides for a \$180 million facility consisting of \$170 million extendible revolving loan facility and a \$10 million operating loan facility both of which mature on May 29, 2004. The credit facilities are secured by a \$250 million floating charge demand debenture, a general security agreement and a subordination agreement for the Trust covering all assets and cash flows. At March 31, 2004 Advantage also had a working capital deficit of \$20.2 million.

Forward Looking Information

The information in this report contains certain forward-looking statements that involve substantial known and unknown risks and uncertainties, certain of which are beyond Advantage's control, including: the impact of general economic conditions, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, fluctuations in commodity prices and foreign exchange and interest rates, stock market volatility and obtaining required approvals of regulatory authorities. Advantage's actual 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.

Non-GAAP Measures

Cash flow from operations and per Unit and cash available for distribution and per Unit are not recognized measures under the Canadian generally accepted accounting principles (GAAP). Management believes that cash flow and cash available for distribution are useful supplemental measures to analyse operating performance and provide an indication of the results generated by the Trust's principal business activities prior to the consideration of how those activities are financed or how the results are taxed. Investors should be cautioned, however, that these measures should not be construed as an alternative to net income determined in accordance with GAAP as an indication of Advantage's performance. Advantage's method of calculating these measures may differ from other companies, and accordingly, they may not be comparable to measures used by other companies.

May 12, 2004

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(thousands of dollars)	March 31, 2004 (unaudited)	December 31, 2003 (restated - note 1)
Assets		
Current assets		
Accounts receivable	\$ 32,470	\$ 34,181
Fixed assets		
Property and equipment	704,598	675,090
Accumulated depletion & depreciation	(175,270)	(155,155)
	529,328	519,935
Goodwill	27,773	27,773
	\$ 589,571	\$ 581,889
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 43,858	\$ 53,287
Cash distributions payable to Unitholders	8,778	8,445
Hedging liability (note 4)	11,057	-
Bank indebtedness	136,155	102,968
	199,848	164,700
Capital lease obligation	1,965	2,043
Asset retirement obligations (note 2)	14,158	13,892
Future income taxes	70,224	77,999
	286,195	258,634
Unitholders' equity		
Unitholders' capital (note 3i)	308,830	302,496
Convertible debentures (note 3ii)	95,218	99,984
Accumulated income	77,957	73,137
Accumulated cash distributions	(178,629)	(152,362)
	303,376	323,255
	\$ 589,571	\$ 581,889

CONSOLIDATED STATEMENTS OF INCOME AND ACCUMULATED INCOME

(thousands of dollars) (unaudited)	Three months ended March 31, 2004	Three months ended March 31, 2003 (restated - note 1)
Revenue		
Petroleum and natural gas sales	\$ 53,836	\$ 42,079
Royalties, net of Alberta Royalty Credit	(10,552)	(8,196)
	43,284	33,883
Expenses		
Operating	8,320	5,514
General and administrative	846	825
Management fee	525	425
Non-cash performance incentive (note 5)	1,400	1,055
Interest	1,278	1,595
Unrealized hedging loss (note 4)	11,057	-
Depletion, depreciation and accretion	20,346	11,610
	43,772	21,024
Income (loss) before taxes	(488)	12,859
Future income tax recovery	(7,775)	(3,102)
Income and capital taxes	315	383
	(7,460)	(2,719)
Net income	6,972	15,578
Accumulated income, beginning of period as previously reported	72,022	36,581
Effect of change in accounting for asset retirement obligations (note 1)	1,115	1,255
Accumulated income, beginning of period as restated	73,137	37,836
Interest on convertible debentures	(2,100)	(1,332)
Costs on issuance of convertible debentures	(52)	-
Accumulated income, end of period	\$ 77,957	\$ 52,082
Net income per Trust Unit		
Basic	\$ 0.13	\$ 0.50
Diluted	\$ 0.13	\$ 0.48

CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of dollars) (unaudited)	Three months ended March 31, 2004	Three months ended March 31, 2003 (restated - note 1)
Operating Activities		
Net income	\$ 6,972	\$ 15,578
Add (deduct) items not requiring cash:		
Non-cash performance incentive (note 5)	1,400	1,055
Future income taxes	(7,775)	(3,102)
Unrealized hedging loss (note 4)	11,057	-
Depletion, depreciation and accretion	20,346	11,610
Funds from operations	32,000	25,141
Expenditures on asset retirement (note 2)	(62)	(58)
Changes in non-cash working capital	(8,788)	(1,893)
Cash provided by operating activities	23,150	23,190
Financing Activities		
Units issued, net of costs (note 3)	116	(74)
Increase in bank debt	33,187	6,175
Interest on convertible debentures	(1,644)	-
Reduction of capital lease obligation	(78)	-
Cash distributions to Unitholders	(25,934)	(16,487)
Cash (used in) provided by financing activities	5,647	(10,386)
Investing Activities		
Expenditures on property and equipment	(30,202)	(13,628)
Property dispositions	791	-
Changes in non-cash working capital	614	824
Cash used in investing activities	(28,797)	(12,804)
Net increase in cash	-	-
Cash, beginning of period	-	-
Cash, end of period	\$ -	\$ -
Cash taxes paid	\$ 316	\$ 202
Cash interest paid	\$ 1,272	\$ 1,635

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

All tabular amounts in thousands, except for per Unit amounts (unaudited)

The interim consolidated financial statements of Advantage Energy Income Fund ("Advantage") have been prepared by management in accordance with Canadian generally accepted accounting principles using the same accounting policies as those set out in note 2 to the consolidated financial statements for the period ended December 31, 2003 except as described below. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Advantage for the year ended December 31, 2003 as set out in Advantage's Annual Report.

1. CHANGE IN ACCOUNTING POLICIES

(a) Petroleum and Natural Gas Properties and Related Equipment

Petroleum and natural gas assets are evaluated in each reporting period to determine that the carrying amount in a cost centre is recoverable and does not exceed the fair value of the properties in the cost centre.

The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market of unproved properties and the cost of major development projects exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves, the lower of cost and market of unproved properties and the cost of major development projects of the cost centre. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate.

The Trust adopted the new accounting standard relating to full cost accounting effective January 1, 2004 and as at January 1, 2004 and March 31, 2004 no write-down to the carrying value of petroleum and natural gas assets was required. Prior to January 1, 2004 the ceiling test amount was the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost or market of unproved properties and the cost of major development projects less estimated future costs for administration, financing, site restoration and income taxes. The cash flows were estimated using period end prices and costs.

(b) Asset Retirement Obligations

The Trust has adopted the asset retirement obligation method of recording the future cost associated with removal, site restoration and asset retirement costs. The fair value of the liability for the Trust's asset retirement obligation is recorded in the period in which it is incurred, discounted to its present value using the Trust's credit adjusted risk-free interest rate and the corresponding amount recognized by increasing the carrying amount of property, plant and equipment. The asset recorded is depleted on a unit of production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

Previously, the Trust recognized a provision for estimated future removal and site restoration costs calculated on the unit-of-production method over the remaining proved reserves.

The effect of this change in accounting policy has been recorded retroactively with restatement of prior periods. The effect of the adoption is presented below as increases (decreases):

Balance Sheets	December 31, 2003	December 31, 2002
Asset retirement costs, included in property and equipment	\$ 7,137	\$ 3,856
Asset retirement obligations	\$ 13,892	\$ 7,351
Provision for future site restoration	\$ (8,451)	\$ (5,396)
Future income taxes	\$ 581	\$ 646
Accumulated income	\$ 1,115	\$ 1,255

Statements of Income	Three months ended March 31, 2003	Year ended December 31, 2003
Accretion expense	\$ 129	\$ 515
Depletion and depreciation on asset retirement costs	\$ 239	\$ 997
Amortization of estimated future removal and site restoration liability	\$ (292)	\$ (1,307)
Future taxes	(24)	(65)
Net income (loss) impact	\$ (52)	\$ (140)
Basic net income (loss) per Unit	\$ (0.00)	\$ (0.00)
Diluted net income (loss) per Unit	\$ (0.00)	\$ (0.00)

(c) Hedging Relationships

Effective January 1, 2004, CICA Accounting Guideline 13 "Hedging Relationships" requires that hedging relationships be identified, designated, documented and measured in order for the Fund to apply hedge accounting. Advantage has chosen not to apply hedge accounting and will instead use the fair value method. This method requires the fair value of the derivative financial instruments be recorded at each balance sheet date. In accordance with this method, the Fund has recorded an unrealized hedging loss of \$11.1 million at March 31, 2004.

2. ASSET RETIREMENT OBLIGATIONS

The Trust's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Trust estimates the total undiscounted and inflated amount of cash flows required to settle its asset retirement obligations is approximately \$39.7 million which will be incurred between 2004 to 2054. A credit-adjusted risk-free rate of 7.0 percent was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	Three month period ended March 31, 2004	Year ended December 31, 2003
Balance, beginning of period	\$ 13,892	\$ 7,351
Accretion expense	231	515
Liabilities incurred	97	6,362
Liabilities settled	(62)	(336)
Balance, end of period	\$ 14,158	\$ 13,892

3. UNITHOLDERS' EQUITY

(i) Unitholders' Capital

(a) Authorized

(i) Unlimited number of voting Trust Units

(b) Issued

	Number of Units	Amount
Balance at December 31, 2003	36,717,206	\$ 282,904
2003 non-cash performance incentive	1,099,104	19,592
Issued on conversion of debentures	315,575	4,766
Issued on exercise of options, net of costs	35,000	168
Non-cash performance incentive estimated (see note 5)	-	1,400
Balance at March 31, 2004	38,166,885	\$ 308,830

On January 27, 2004 Advantage issued 1,099,104 Trust Units to satisfy the obligation related to the 2003 year end performance incentive fee.

(c) Trust Units Rights Incentive Plan

	Number	Price
Balance at December 31, 2003	140,000	\$ 7.87
Exercised	(35,000)	-
Reduction of exercise price	-	(0.69)
Balance at March 31, 2004	105,000	\$ 7.18

Due to the exercise price features in the Unit rights, management believes the fair value is not reliably determinable. Based on a March 31, 2004 unit price of \$18.97, the decrease in the intrinsic value of the Trust Unit Rights during first quarter of 2004 is approximately \$172,000.

(ii) Convertible Debentures

	10% debentures	9% debentures	8.25% debentures	Total debentures
Balance at December 31, 2003	\$ 10,214	\$ 30,000	\$ 59,770	\$ 99,984
Converted to Trust Units	(1,849)	(125)	(2,792)	(4,766)
Balance at March 31, 2004	\$ 8,365	\$ 29,875	\$ 56,978	\$ 95,218

The convertible debentures and the related interest obligations are classified as equity on the consolidated balance sheet as the Trust may elect to satisfy the debenture interest and principle obligations by the issuance of Trust Units. During the three months ended March 31, 2004 \$4,766,000 debentures were converted resulting in the issuance of 315,575 Advantage Units.

4. FINANCIAL INSTRUMENTS

As at March 31, 2004 the Fund has the following hedges in place:

Volume	Effective Period	Price
Natural gas - AECO		
50,350 mcf/d	April 1, 2004 - December 31, 2004	\$ 6.12/mcf
10,450 mcf/d	January 1, 2005 - March 31, 2005	\$ 6.30/mcf

As at March 31, 2004 the settlement value of the hedges outstanding was approximately \$11.1 million and has been charged to income as an unrealized hedging loss.

5. NON-CASH PERFORMANCE INCENTIVE

The Manager of the Fund is entitled to earn an annual performance incentive fee which is calculated based on the total return of the Fund. At March 31, 2004 no amount was paid to the Manager, nor is the Manager entitled to receive any payment related to the Fund's first three months performance as the actual amount is only calculated and paid on an annual basis.

The Manager earns the performance incentive fee when the Fund's total annual return exceeds 8%. The total annual return is calculated at the end of each year by dividing the year over year change in Unit price plus cash distributions by the opening Unit price. The 2004 opening Unit Price was \$18.03. Ten percent of the amount of the total annual return in excess of 8% is multiplied by the market capitalization (defined as the opening Unit price multiplied by the average number of Units outstanding during the year) to determine the performance incentive. If the performance fee was paid at March 31, 2004 based on the performance of the Trust in the first quarter the total fee payable would be \$5.6 million. The Trust has accrued one quarter of this amount or \$1.4 million for the first quarter of 2004. It is expected that any fee earned be paid to the Manager in Advantage Trust Units and therefore the accrued fee to March 31, 2004 has been classified as Unitholders' Capital. The Manager does not receive any form of compensation in respect of acquisition or divestiture activities.

DIRECTORS

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

OFFICERS

Kelly I. Drader
President & CEO
Patrick J. Cairns
Senior Vice President
Gary F. Bourgeois
Vice President, Corporate Development
Peter A. Hanrahan
CFO & Controller
Rick P. Mazurkewich
Vice President, Operations
Tony Takahashi
Vice President, Exploitation

CORPORATE SECRETARY

Jay P. Reid
Partner, Burnet, Duckworth and Palmer LLP

OPERATING COMPANY

Advantage Oil & Gas Ltd.

AUDITORS

KPMG LLP

BANKERS

The Bank of Nova Scotia
National Bank of Canada
Bank of Montreal

INDEPENDENT RESERVE EVALUATORS

Sroule Associates Limited

LEGAL COUNSEL

Burnet, Duckworth and Palmer LLP

ABBREVIATIONS

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

CORPORATE OFFICES

Petro-Canada Centre
Suite 3100,
150 - 6 Avenue SW
Calgary, Alberta T2P 3Y7
(403) 261-8810

The Exchange Tower
130 King Street West, Suite 1800
P.O. Box 427
Toronto, Ontario M5X 1E3
(416) 945-6636

TRANSFER AGENT

Computershare Trust Company of Canada

CONTACT US

Toll free: 1-866-393-0393
Visit our website at www.advantageincome.com

TORONTO STOCK EXCHANGE TRADING SYMBOLS

Trust Units: AVN.UN
10% Convertible Debentures: AVN.DB
9% Convertible Debentures: AVN.DBA
8.25% Convertible Debentures: AVN.DBB