



Q2

2008 Second Quarter Report

Financial and Operating Highlights

	Three months ended		Six months ended	
	2008	2007	2008	2007
Financial (\$000, except as otherwise indicated)				
Revenue before royalties ⁽¹⁾	\$ 208,868	\$ 125,075	\$ 397,373	\$ 260,577
per Trust Unit ⁽²⁾	\$ 1.51	\$ 1.10	\$ 2.88	\$ 2.35
per boe	\$ 71.69	\$ 50.69	\$ 67.03	\$ 51.31
Funds from operations	\$ 103,754	\$ 62,634	\$ 198,372	\$ 128,279
per Trust Unit ⁽³⁾	\$ 0.74	\$ 0.54	\$ 1.42	\$ 1.13
per boe	\$ 35.62	\$ 25.38	\$ 33.46	\$ 25.26
Distributions declared	\$ 50,364	\$ 52,096	\$ 100,385	\$ 102,302
per Trust Unit ⁽³⁾	\$ 0.36	\$ 0.45	\$ 0.72	\$ 0.90
Expenditures on property and equipment	\$ 21,632	\$ 25,678	\$ 88,535	\$ 75,374
Working capital deficit ⁽⁴⁾	\$ 42,201	\$ 11,512	\$ 42,201	\$ 11,512
Bank indebtedness	\$ 547,946	\$ 377,812	\$ 547,946	\$ 377,812
Convertible debentures (face value)	\$ 224,587	\$ 180,725	\$ 224,587	\$ 180,725
Trust Units outstanding at end of period (000)	140,271	116,091	140,271	116,091
Basic weighted average Trust Units (000)	138,612	113,854	138,105	111,108
Operating				
Daily Production				
Natural gas (mcf/d)	123,104	108,978	124,109	111,636
Crude oil and NGLs (bbls/d)	11,498	8,952	11,890	9,452
Total boe/d @ 6:1	32,015	27,115	32,575	28,058
Average prices (including hedging)				
Natural gas (\$/mcf)	\$ 9.18	\$ 7.52	\$ 8.70	\$ 7.80
Crude oil and NGLs (\$/bbl)	\$ 101.34	\$ 61.93	\$ 92.81	\$ 60.21

⁽¹⁾ includes realized derivative gains and losses⁽²⁾ based on basic weighted average Trust Units outstanding⁽³⁾ based on Trust Units outstanding at each distribution record date⁽⁴⁾ working capital deficit excludes derivative assets and liabilities

MESSAGE TO UNITHOLDERS

Record Second Quarter Funds from Operations and Payout Ratio:

- Strong natural gas and crude oil pricing combined with solid operational results generated a record level of funds from operations during the second quarter of 2008 resulting in a payout ratio of 49%. This is the lowest payout ratio in the history of Advantage and reinforces our strategy to finance our highly efficient capital program from operating cash flow.
- Funds from operations for the second quarter of 2008 increased 66% to \$103.8 million and 37% to \$0.74 per Trust Unit compared to \$62.6 million or \$0.54 per Trust Unit for the same period of 2007.
- The Fund declared three distributions during the quarter totaling \$0.36 per Trust Unit. Since inception, the Fund has distributed \$980.2 million or \$16.98 per Trust Unit.
- Production volumes in the second quarter of 2008 increased 18% to 32,015 boe/d compared to 27,115 boe/d in the second quarter of 2007. Second quarter 2008 production volumes were negatively impacted by a significant number of third party turnaround maintenance outages which amounted to approximately 1,400 boe/d for the quarter.
- Natural gas production for the second quarter of 2008 increased 13% to 123.1 mmcf/d, compared to 109.0 mmcf/d reported in the second quarter of 2007. Crude oil and natural gas liquids production increased 28% to average 11,498 bbls/d compared to 8,952 bbls/d in the second quarter of 2007.

Drilling Underway at our Glacier Montney Natural Gas Resource Play Following increased Capital Budget

- On June 27, 2008, Advantage's Board of Directors approved an increase of \$55 million to the 2008 capital budget, which has resulted in an annual budget total of \$200 million.
- Approximately \$39 million will be spent on the next phase of development at Glacier that includes drilling an additional 5 gross horizontal wells, 5 gross vertical delineation wells, and initial infrastructure activities. During the first quarter of 2008, the Fund drilled 5 vertical delineation wells at Glacier which helped confirm geological formations, reservoir productivity and pool continuity.
- Drilling has commenced with three drilling rigs on the property and initial commitments toward facilities expansion plans have been made. We anticipate longer term development plans to be further defined by year-end based on the timing of well information.
- Advantage's extensive 83 section land block, which may support in excess of 150 horizontal wells, is located directly adjacent and on-trend to EnCana's Swan Lake and Murphy's Tupper project developments which are continuing to exhibit successful results.

Strong Results Continue with our Conventional Assets

- Capital spending for the quarter was \$21.6 million net which included \$9.4 million on drilling and completion activities. During the second quarter, 4 gross (3 net) wells were drilled at 100% success rate with the balance of capital activity directed at well completions carried over from the first quarter, facilities expansions and maintenance capital. Year to date drilling activity has resulted in 57 gross (41 net) wells at a 98% success rate.
- At Nevis in Central Alberta, horizontal light oil wells are exceeding initial budgeted productivities and additional oil facilities expansion work is required. Further to our phase 1 Horseshoe Canyon coal bed methane program, which included 22 wells in the first quarter, an additional 15 well phase 2 program has commenced on the lands acquired in connection with the acquisition of Sound Energy Trust. The wells have excellent initial productivities ranging from 125 to 250 mcf/d. Several years of future light oil and natural gas drilling opportunities are available at our Nevis property.
- At Martin Creek in Northwest British Columbia, new well production information from our highly successful first quarter drilling program is confirming the significant upside potential that exists in this property.
- At Willesden Green in Central Alberta, follow-up drilling locations are being pursued on a light oil discovery that was made in the first quarter of 2008.
- With continued drilling success and a highly attractive suite of assets, Advantage has over 5 years of conventional drilling inventory and is well positioned to additionally capitalize on the significant natural gas resource play in the Montney formation at our Glacier and Stoddart properties.

Improved Commodity Prices & Hedging Update

- With improved natural gas and crude oil pricing realized through the first six months of 2008 and including our commodity risk management positions for this year, we anticipate generating cash flow in excess of our \$200 million revised capital budget and current distribution requirements. Surplus cash flow provides security to our current distribution level, flexibility to fund our highly efficient capital program, and the ability to capitalize on acquisition opportunities or reduce debt.
- Advantage maintains a hedging program to reduce cash flow volatility and to ensure that our capital program can be funded out of cash flow. Additional natural gas pricing hedges have been secured for April to December of 2009 for approximately 23% of our gross production at an average AECO price of \$8.76 Canadian per mcf or equivalent to approximately NYMEX \$9.64 US per mmbtu. Details on our hedging program are available in our MD&A for the quarter and on our website.

Looking Forward

- Our 2008 annual guidance includes capital expenditures of \$200 million and production of 32,000 to 34,000 boe/d with a 63% weighting to natural gas. Royalty rates are estimated to range between 18% to 20%. Operating costs are now forecasted to be \$13.40 to \$13.90/boe due to cost escalations resulting from increased third party processing fees especially at our Lookout Butte property. The higher commodity price environment has also increased electrical power costs and the cost of supplies derived from crude oil and natural gas as feedstocks.
- Production at our Lookout Butte property in Southern Alberta will be impacted during the third quarter by an extended third party facility outage at Shell's Waterton gas plant where a significant modification project is underway. Estimates provided by Shell indicate a potential outage of approximately 55 to 75 days that begins August 13, 2008.
- Advantage's current intention is to continue to be a cash distributing entity after 2010. We will continue to closely monitor industry dynamics and are considering a number of alternative structures. Advantage's significant tax pools of \$1.7 billion affords us flexibility to evaluate many options in this regard.

MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of August 14, 2008, provides a detailed explanation of the financial and operating results of Advantage Energy Income Fund ("Advantage", the "Fund", "us", "we" or "our") for the three and six months ended June 30, 2008 and should be read in conjunction with the consolidated financial statements contained within this interim report and the audited financial statements and MD&A for the year ended December 31, 2007. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and all references are to Canadian dollars unless otherwise indicated. All per barrel of oil equivalent ("boe") amounts are stated at a conversion rate of six thousand cubic feet of natural gas being equal to one barrel of oil or liquids.

Non-GAAP Measures

The Fund discloses several financial measures in the MD&A that do not have any standardized meaning prescribed under GAAP. These financial measures include funds from operations, funds from operations per Trust Unit and cash netbacks. Management believes that these financial measures are useful supplemental information to analyze operating performance, leverage and provide an indication of the results generated by the Fund's principal business activities prior to the consideration of how those activities are financed or how the results are taxed. Investors should be cautioned that these measures should not be construed as an alternative to net income, cash provided by operating activities or other measures of financial performance as determined in accordance with GAAP. 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.

Funds from operations, as presented, is based on cash provided by operating activities before expenditures on asset retirement and changes in non-cash working capital. Funds from operations per Trust Unit is based on the number of Trust Units outstanding at each distribution record date. Cash netbacks are dependent on the determination of funds from operations and include the primary cash revenues and expenses on a per boe basis that comprise funds from operations. Funds from operations reconciled to cash provided by operating activities is as follows:

	Three months ended			Six months ended		
	June 30			June 30		
	2008	2007	% change	2008	2007	% change
Cash provided by operating activities	\$ 93,882	\$ 49,932	88%	\$ 175,475	\$ 100,452	75%
Expenditures on asset retirement	982	(302)	(425)%	5,947	3,707	60%
Changes in non-cash working capital	8,890	13,004	(32)%	16,950	24,120	(30)%
Funds from operations	\$ 103,754	\$ 62,634	66%	\$ 198,372	\$ 128,279	55%

Forward-Looking Information

The information in this report contains certain forward-looking statements. These statements relate to future events or our future 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 "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "would" and similar expressions. These statements 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; fluctuations in commodity prices and foreign exchange and interest rates; stock market volatility and market valuations; volatility in market prices for oil and natural gas; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions; changes in income tax laws or changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry and income trusts; geological, technical, drilling and processing problems and other difficulties in producing petroleum reserves; obtaining required approvals of regulatory authorities and other risk factors set forth in Advantage's Annual Information Form which is available at www.advantageincome.com and www.sedar.com. Additionally, references to test production rates and test rates for recently drilled wells are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will commence production and decline thereafter. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Fund. 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. Except as required by law, Advantage undertakes no obligation to publicly update or revise any forward-looking statements.

Overview

	Three months ended			Six months ended		
	June 30			June 30		
	2008	2007	% change	2008	2007	% change
Cash provided by operating activities (\$000)	\$ 93,882	\$ 49,932	88%	\$ 175,475	\$ 100,452	75%
Funds from operations (\$000)	\$ 103,754	\$ 62,634	66%	\$ 198,372	\$ 128,279	55%
per Trust Unit ⁽¹⁾	\$ 0.74	\$ 0.54	37%	\$ 1.42	\$ 1.13	26%

⁽¹⁾ Based on Trust Units outstanding at each distribution record date.

Cash provided by operating activities and funds from operations have increased significantly as compared to 2007 due to considerably higher revenue. The increased revenue has been primarily due to improved commodity prices that continue to exceed the prior year. Our financial results have also substantially benefited from the Sound Energy Trust (“Sound”) acquisition, which closed on September 5, 2007. The financial and operating results from the acquired Sound properties are included in all 2008 figures but are not included in the three and six month periods ended June 30, 2007. Funds from operations per Trust Unit have also increased significantly, but not in the same proportion as funds from operations due to the higher number of Trust Units outstanding for 2008. Trust Units outstanding has increased due to Trust Units issued in exchange for the Sound acquisition and our distribution reinvestment plan that allows Unitholders to purchase Trust Units in exchange for their regular monthly distributions. The number of Trust Units has increased 21% from June 30, 2007.

The primary factor that causes significant variability of Advantage’s cash provided by operating activities, funds from operations, and net income is commodity prices. Refer to the section “Commodity Prices and Marketing” for a more detailed discussion of commodity prices and our price risk management.

Distributions

	Three months ended			Six months ended		
	June 30			June 30		
	2008	2007	% change	2008	2007	% change
Distributions declared (\$000)	\$ 50,364	\$ 52,096	(3)%	\$ 100,385	\$ 102,302	(2)%
per Trust Unit ⁽¹⁾	\$ 0.36	\$ 0.45	(20)%	\$ 0.72	\$ 0.90	(20)%

⁽¹⁾ Based on Trust Units outstanding at each distribution record date.

Total distributions for both the three and six months ended June 30, 2008 are comparable to 2007. Although the Fund has more Trust Units outstanding during 2008, there has been a 20% reduction in the monthly distribution per Trust Unit. In December 2007, we decreased the monthly distribution from the \$0.15 per Trust Unit paid for January to November 2007 to \$0.12 per Trust Unit due to the weak natural gas prices at that time. The monthly distribution currently remains at \$0.12 per Trust Unit. Commodity prices have strengthened in 2008 such that the current environment, in combination with our hedging program, provides strong support for continuation of the current distribution level and our expanded 2008 capital program.

Distributions from the Fund to Unitholders are entirely discretionary and are determined by Management and the Board of Directors. We closely monitor our distribution policy considering forecasted cash flows, optimal debt levels, capital spending activity, working capital requirements, and other potential cash expenditures. Distributions are announced monthly and are based on the cash available after retaining a portion to meet such spending requirements. The level of distributions are primarily determined by cash flows received from the production of oil and natural gas from existing Canadian resource properties and will be susceptible to the risks and uncertainties associated with the oil and natural gas industry generally. If the oil and natural gas reserves associated with the Canadian resource properties are not supplemented through additional development or the acquisition of additional oil and natural gas properties, our distributions will decline over time in a manner consistent with declining production from typical oil and natural gas reserves. Therefore, distributions are highly dependent upon our success in exploiting the current reserve base and acquiring additional reserves. Furthermore, monthly distributions we pay to Unitholders are highly dependent upon the prices received for such oil and natural gas production. Oil and natural gas prices can fluctuate widely on a month-to-month basis in response to a variety of factors that are beyond our control. Declines in oil or natural gas prices will have an adverse effect upon our operations, financial condition,

reserves and ultimately on our ability to pay distributions to Unitholders. The Fund attempts to mitigate the volatility in commodity prices through our hedging program. It is our long-term objective to provide stable and sustainable distributions to the Unitholders, while continuing to grow the Fund. However, given that funds from operations can vary significantly from month-to-month due to these factors, the Fund may utilize various financing alternatives, including our credit facility, as an interim measure to maintain stable distributions.

Revenue

(\$000)	Three months ended June 30			Six months ended June 30		
	2008	2007	% change	2008	2007	% change
Natural gas excluding hedging	\$ 115,687	\$ 74,760	55%	\$ 205,681	\$ 153,093	34%
Realized hedging gains (losses)	(12,861)	(136)	9,357%	(9,151)	4,484	(304)%
Natural gas including hedging	\$ 102,826	\$ 74,624	38%	\$ 196,530	\$ 157,577	25%
Crude oil and NGLs excluding hedging	\$ 115,266	\$ 50,371	129%	\$ 211,370	\$ 101,310	109%
Realized hedging gains (losses)	(9,224)	80	(11,630)%	(10,527)	1,690	(723)%
Crude oil and NGLs including hedging	\$ 106,042	\$ 50,451	110%	\$ 200,843	\$ 103,000	95%
Total revenue	\$ 208,868	\$ 125,075	67%	\$ 397,373	\$ 260,577	52%

Revenues have increased significantly for 2008 due to additional production, primarily from the Sound acquisition, as well as stronger commodity prices. The higher revenue has been partially offset by our realized hedging losses that have also resulted from the higher commodity price environment. The Fund enters derivative contracts whereby realized hedging gains and losses partially offset commodity price fluctuations, which can positively or negatively impact revenues.

Production

	Three months ended June 30			Six months ended June 30		
	2008	2007	% change	2008	2007	% change
Natural gas (mcf/d)	123,104	108,978	13%	124,109	111,636	11%
Crude oil (bbls/d)	9,311	6,615	41%	9,581	7,083	35%
NGLs (bbls/d)	2,187	2,337	(6)%	2,309	2,369	(3)%
Total (boe/d)	32,015	27,115	18%	32,575	28,058	16%
Natural gas (%)	64%	67%		64%	67%	
Crude oil (%)	29%	24%		29%	25%	
NGLs (%)	7%	9%		7%	8%	

The Fund's total daily production averaged 32,015 boe/d for the three months and 32,575 boe/d for the six months ended June 30, 2008, an increase of 18% and 16%, respectively. Production increases were realized primarily due to the Sound acquisition. Natural declines and third party facility turnarounds have caused total production in the second quarter of 2008 to decrease 3% from 33,133 boe/d realized in the first quarter of 2008. Wet weather delays in the second quarter of 2008 prevented some of our new wells from being put into production that would have offset such declines. For 2008, we expect production to average approximately 32,000 to 34,000 boe/d, weighted 63% to natural gas.

Commodity Prices and Marketing

Natural Gas

(\$/mcf)	Three months ended June 30			Six months ended June 30		
	2008	2007	% change	2008	2007	% change
Realized natural gas prices						
Excluding hedging	\$ 10.33	\$ 7.54	37%	\$ 9.11	\$ 7.58	20%
Including hedging	\$ 9.18	\$ 7.52	22%	\$ 8.70	\$ 7.80	12%
AECO monthly index	\$ 9.35	\$ 7.37	27%	\$ 8.24	\$ 7.42	11%

Realized natural gas prices, excluding hedging, were considerably higher for the three and six months ended June 30, 2008 with a significant improvement from the first quarter of 2008. The 2007/2008 winter season in North America has caused inventory levels that had been high prior to winter, to decline to approximately the five-year average. In addition, reduced liquefied natural gas imports into the US and the slowdown in natural gas drilling in Western Canada has provided upward price support. We believe that longer-term pricing fundamentals for natural gas will be supported due to: (i) the continued strength of crude oil prices, which has eliminated the economic advantage of fuel switching away from natural gas, (ii) significantly less natural gas drilling in Canada projected for 2008, which will reduce productivity to offset declines, (iii) the increasing focus on resource style natural gas wells, which have high initial declines and require a higher threshold economic price than conventional gas drilling and (iv) the demand for natural gas for the Canadian oil sands projects.

Crude Oil and NGLs

(\$/bbl)	Three months ended June 30			Six months ended June 30		
	2008	2007	% change	2008	2007	% change
Realized crude oil prices						
Excluding hedging	\$ 113.71	\$ 64.23	77%	\$100.57	\$ 61.48	64%
Including hedging	\$ 102.83	\$ 64.37	60%	\$ 94.53	\$ 62.79	51%
Realized NGLs prices						
Excluding hedging	\$ 95.02	\$ 55.05	73%	\$ 85.67	\$ 52.47	63%
Realized crude oil and NGLs prices						
Excluding hedging	\$ 110.15	\$ 61.84	78%	\$ 97.68	\$ 59.22	65%
Including hedging	\$ 101.34	\$ 61.93	64%	\$ 92.81	\$ 60.21	54%
WTI (\$US/bbl)	\$ 124.00	\$ 65.02	91%	\$110.98	\$ 61.59	80%
\$US/\$Canadian exchange rate	\$ 0.99	\$ 0.91	9%	\$ 0.99	\$ 0.88	13%

Advantage's crude oil prices are based on the benchmark pricing of West Texas Intermediate Crude ("WTI") adjusted for quality, transportation costs and \$US/\$Canadian exchange rates. For the three and six months ended June 30, 2008, WTI increased 91% and 80%, respectively. Advantage's realized crude oil price has not changed to the same extent as WTI, owing to the Canadian dollar achieving parity with the US dollar, and changes in Canadian crude oil differentials relative to WTI. The price of WTI fluctuates based on worldwide supply and demand fundamentals. There has been significant price volatility experienced over the last several years whereby WTI has reached historic high levels. Many developments have resulted in the current price levels, including significant continuing geopolitical issues, general market speculation and ongoing supply concerns. As a result, prices have continued to increase, with WTI recently surpassing US\$140/bbl. However, we have recently seen a correction in the price levels as demand has appeared to decline, with WTI decreasing to approximately US\$115/bbl. Regardless whether the current price level is sustainable or a short-term anomaly, we believe that the pricing fundamentals for crude oil remain strong with many factors affecting the continued strength including (i) supply management and supply restrictions by the OPEC cartel, (ii) ongoing civil unrest in Venezuela, Nigeria, and the Middle East, (iii) strong relative world wide demand, particularly in China, India and the United States and (iv) North American refinery capacity constraints.

Commodity Price Risk

The Fund's operational results and financial condition will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by economic and, in the case of oil prices, political factors. Supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions, impact prices. Any movement in oil and natural gas prices could have an effect on the Fund's financial condition and therefore on the distributions to holders of Advantage Trust Units. As current and future practice, Advantage has established a financial hedging strategy and may manage the risk associated with changes in commodity prices by entering into derivatives. Although these commodity price risk management activities could expose Advantage to losses or gains, entering derivative contracts helps us to stabilize cash flows and ensure that our capital expenditure program is substantially funded by such cash flows. To the extent that Advantage engages in risk management activities related to commodity prices, it will be subject to credit risk associated with counterparties with which it contracts. Credit risk is mitigated by entering into contracts with only stable, creditworthy parties and through frequent reviews of exposures to individual entities. Currently, the Fund has fixed the commodity price on anticipated production as follows:

Commodity	Approximate Production Hedged, Net of Royalties	Average Price
Natural gas - AECO		
July to September 2008	70%	Cdn\$7.22/mcf
October to December 2008	65%	Cdn\$7.64/mcf
Total 2008	56%	Cdn\$7.52/mcf
January to March 2009	64%	Cdn\$7.87/mcf
April to June 2009 ⁽¹⁾	29%	Cdn\$8.76/mcf
July to September 2009 ⁽¹⁾	29%	Cdn\$8.76/mcf
October to December 2009 ⁽¹⁾	29%	Cdn\$8.76/mcf
Total 2009	38%	Cdn\$8.38/mcf

Crude Oil - WTI

July to September 2008	49%	Cdn\$94.39/bbl
October to December 2008	47%	Cdn\$94.39/bbl
Total 2008	40%	Cdn\$94.07/bbl
January to March 2009	33%	Cdn\$95.84/bbl

⁽¹⁾ Derivative contracts entered into after June 30, 2008.

For the six month period ended June 30, 2008, we recognized in income a realized derivative loss of \$19.7 million (June 30, 2007 - \$6.2 million realized derivative gain). As at June 30, 2008, the fair value of the derivatives outstanding and to be settled from July 2008 to March 2009 was a net liability of approximately \$121.7 million (December 31, 2007 - \$2.2 million net asset). For the six months ended June 30, 2008, \$123.9 million was recognized in income as an unrealized derivative loss due to changes in the fair values of these contracts since December 31, 2007. The valuation of the derivatives is the estimated fair value to settle the contracts as at June 30, 2008 and is based on pricing models, estimates, assumptions and market data available at that time. As such, the unrealized amounts are not cash and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions. These fair values are extremely sensitive to assumptions regarding forward commodity prices and such prices have declined significantly since June 30, 2008. As a result, at August 14, 2008, it is estimated that the net liability of our derivatives at June 30, 2008, have reduced by approximately \$70 million. The Fund does not apply hedge accounting and current accounting standards require changes in the fair value to be included in the consolidated statement of income and comprehensive income as an unrealized derivative gain or loss with a corresponding derivative asset and liability recorded on the balance sheet. These derivative contracts will settle from July 2008 to March 2009 corresponding to when Advantage will receive revenues from production.

Royalties

	Three months ended			Six months ended		
	June 30			June 30		
	2008	2007	% change	2008	2007	% change
Royalties (\$000)	\$ 46,173	\$ 22,749	103%	\$ 80,054	\$ 48,914	64%
per boe	\$ 15.85	\$ 9.22	72%	\$ 13.50	\$ 9.63	40%
As a percentage of revenue, excluding hedging	20.0%	18.2%	1.8%	19.2%	19.2%	-

Advantage pays royalties to the owners of mineral rights from which we have leases. The Fund currently has mineral leases with provincial governments, individuals and other companies. Royalties have increased in total due to the increase in revenue from higher production and commodity prices. Royalties as a percentage of revenue, excluding hedging, have increased as higher prices generally attract a higher royalty rate. Royalty rates are dependent on prices and individual well production levels such that average royalty rates will vary as the nature of our properties change through ongoing development activities and acquisitions. We expect the royalty rate to be in the range of 18% to 20% for the remainder of 2008 given the current environment.

Operating Costs

	Three months ended			Six months ended		
	June 30			June 30		
	2008	2007	% change	2008	2007	% change
Operating costs (\$000)	\$ 39,917	\$ 26,919	48%	\$ 80,189	\$ 57,189	40%
per boe	\$ 13.70	\$ 10.91	26%	\$ 13.53	\$ 11.26	20%

Total operating costs increased 48% for the three months and 40% for the six months ended June 30, 2008 as compared to 2007, mainly due to increased production from the Sound acquisition, which closed September 5, 2007. Total operating costs for the three months ended June 30, 2008 was slightly down from \$40.3 million incurred in the three months ended March 31, 2008. Operating costs per boe increased 26% for the three months and 20% for the six months ended June 30, 2008, due to severe cold weather experienced in the first quarter of 2008, lower production volumes resulting from several third party facility turnaround maintenance outages in the second quarter of 2008, a higher percentage of oil properties which incur higher operating costs than gas properties, and escalating costs including electricity, chemicals, gas processing fees, and transportation. We will continue to be opportunistic and proactive in pursuing optimization initiatives that will improve our operating cost structure. We expect that operating costs per boe will be in the range of \$13.40 to \$13.90 for the remainder of the 2008 year.

General and Administrative

	Three months ended			Six months ended		
	June 30			June 30		
	2008	2007	% change	2008	2007	% change
General and administrative expense (\$000)	\$ 5,763	\$ 4,861	19%	\$ 12,995	\$ 9,577	36%
per boe	\$ 1.98	\$ 1.97	-	\$ 2.19	\$ 1.89	16%
Employees at June 30				174	135	29%

Total general and administrative (“G&A”) expense has increased 19% and 36% for the three and six months ended June 30, 2008. The higher total G&A expense has been primarily due to an increase in staff levels that have resulted from the Sound acquisition, general growth of the Fund, and a one-time payment to terminate an office lease that occurred in the first quarter of 2008. Total G&A expense has decreased 20% as compared to the first quarter of 2008.

Management Internalization

	Three months ended			Six months ended		
	June 30			June 30		
	2008	2007	% change	2008	2007	% change
Management internalization (\$000)	\$ 2,439	\$ 5,350	(54)%	\$ 4,930	\$ 10,719	(54)%
per boe	\$ 0.84	\$ 2.17	(61)%	\$ 0.83	\$ 2.11	(61)%

In 2006, the Fund and the Manager reached an agreement to internalize the pre-existing management contract arrangement. As part of the agreement, Advantage agreed to purchase all of the outstanding shares of the Manager pursuant to the terms of the Arrangement, thereby eliminating the management fee and performance incentive effective April 1, 2006. The Trust Unit consideration issued in exchange for the outstanding shares of the Manager was placed in escrow for a 3-year period and is being deferred and amortized into income as management internalization expense over the specific vesting periods during which employee services are provided. The management internalization is lower for the three and six months as one third vested and was paid in June 2007 with an additional one third vested and paid in June 2008.

Interest

	Three months ended			Six months ended		
	June 30			June 30		
	2008	2007	% change	2008	2007	% change
Interest expense (\$000)	\$ 7,118	\$ 5,005	42%	\$ 14,884	\$ 10,192	46%
per boe	\$ 2.44	\$ 2.03	20%	\$ 2.51	\$ 2.01	25%
Average effective interest rate	5.1%	5.4%	(0.3)%	5.4%	5.4%	-
Bank indebtedness at June 30 (\$000)				\$547,946	\$377,812	45%

Total interest expense and interest expense per boe increased as compared to 2007 primarily due to the additional debt assumed by the Fund from the Sound acquisition on September 5, 2007. Interest expense versus the first quarter of 2008 was 8% less as our debt level decreased during the second quarter of 2008. We monitor the debt level to ensure an optimal mix of financing and cost of capital that will provide a maximum return to our Unitholders. Our current credit facilities have been a favorable financing alternative with an effective interest rate of only 5.4% for the six months ended June 30, 2008. The Fund's interest rates are primarily based on short term Bankers Acceptance rates plus a stamping fee.

Interest and Accretion on Convertible Debentures

	Three months ended			Six months ended		
	June 30			June 30		
	2008	2007	% change	2008	2007	% change
Interest on convertible debentures (\$000)	\$ 4,204	\$ 3,293	28%	\$ 8,391	\$ 6,531	28%
per boe	\$ 1.44	\$ 1.33	8%	\$ 1.42	\$ 1.29	10%
Accretion on convertible debentures (\$000)	\$ 720	\$ 605	19%	\$ 1,440	\$ 1,204	20%
per boe	\$ 0.25	\$ 0.25	-	\$ 0.24	\$ 0.24	-
Convertible debentures maturity value at June 30 (\$000)				\$224,587	\$180,725	24%

Interest and accretion on convertible debentures has increased compared to 2007 due to Advantage assuming Sound's 8.75% and 8.00% convertible debentures on the acquisition. The increased interest and accretion from the additional debentures has been slightly offset by the maturation of the 10% convertible debentures with a face value of \$1.4 million on November 1, 2007. The interest per boe for 2008 is slightly higher as our convertible debentures outstanding have somewhat increased relative to our level of production.

Depletion, Depreciation and Accretion

	Three months ended June 30			Six months ended June 30		
	2008	2007	% change	2008	2007	% change
Depletion, depreciation and accretion (\$000)	\$ 74,704	\$ 61,365	22%	\$151,584	\$125,283	21%
per boe	\$ 25.64	\$ 24.87	3%	\$ 25.57	\$ 24.67	4%

Depletion and depreciation of property and equipment is provided on the “unit-of–production” method based on total proved reserves. The depletion, depreciation and accretion (“DD&A”) provision has increased in total due to the increase in production and fixed assets in comparison to the three and six months ended June 30, 2007, mainly attributed to the Sound acquisition. The slight increase in the DD&A rate per boe compared to the prior year is due to high capital expenditures in the first half of 2008 and the higher value assigned to the Sound acquisition than accumulated from prior development activities.

Taxes

Current taxes paid or payable for the quarter ended June 30, 2008 amounted to \$0.9 million, as compared to the \$0.2 million expensed for the same period of 2007. Current taxes primarily represent Saskatchewan resource surcharge, which is based on the petroleum and natural gas revenues within the province of Saskatchewan.

Future income taxes arise from differences between the accounting and tax bases of the assets and liabilities. For the six months ended June 30, 2008, the Fund recognized an income tax reduction of \$44.0 million compared to a reduction of \$16.3 million for 2007. As at June 30, 2008, the Fund had a future income tax liability of \$22.7 million compared to \$66.7 million at December 31, 2007.

Under the Fund’s current structure, payments are made between the operating company and the Fund transferring income tax obligations to Unitholders and as a result no cash income taxes would be paid by the operating company or the Fund prior to 2011. However, the Specified Investment Flow-Through Entity (“SIFT”) tax legislation was enacted on June 22, 2007 altering the tax treatment by subjecting income trusts to a two-tier tax structure, similar to that of corporations, whereby the taxable portion of distributions paid by trusts will be subject to tax at the trust level and at the Unitholder level. The rules are effective for tax years beginning in 2011 for existing publicly-traded trusts. The effect of the new tax law was recognized in the future income tax expense and liability for the year ended December 31, 2007. Canadian generally accepted accounting principles require that a future income tax liability be recorded when the book value of assets exceeds the balance of tax pools.

On July 14, 2008, the Department of Finance released draft legislative proposals to facilitate the conversion of SIFT trusts into corporations. In general, the rules are meant to ensure that existing SIFT's can choose to reorganize as corporations on a tax efficient basis without undue tax effects for unitholders and the SIFT trust. It is expected that the draft legislative proposals will form part of a bill to be introduced into Parliament later in 2008. Management continues to review the impact of the SIFT tax on its business strategy and the Fund’s organizational structure.

Net Income (Loss)

	Three months ended			Six months ended		
	June 30			June 30		
	2008	2007	% change	2008	2007	% change
Net income (loss) (\$000)	\$(14,369)	\$ 4,531	(417)%	\$(38,491)	\$ 4,872	(890)%
per Trust Unit - Basic and diluted	\$ (0.10)	\$ 0.04	(350)%	\$ (0.28)	\$ 0.04	(800)%

Advantage has experienced net losses for 2008 as compared to the similar periods of 2007. Although higher production and commodity prices in the three and six months ended June 30, 2008 resulted in considerable increased revenue, this was more than offset by unrealized losses on derivatives of \$62.7 million and \$123.9 million for the three and six months ended June 30, 2008, respectively. The unrealized losses on derivatives are due to improved forward commodity prices as compared to the prices per the open derivative positions. The unrealized amounts are not cash and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices. The Fund does not apply hedge accounting and current accounting standards require changes in the fair value to be included in the consolidated statement of income and comprehensive income as an unrealized derivative gain or loss with a corresponding derivative asset and liability recorded on the balance sheet. These derivative contracts will settle from July 2008 to March 2009 corresponding to when Advantage will receive revenues from production.

Cash Netbacks

	Three months ended				Six months ended			
	June 30				June 30			
	2008		2007		2008		2007	
	\$000	per boe	\$000	per boe	\$000	per boe	\$000	per boe
Revenue	\$ 230,953	\$ 79.27	\$ 125,131	\$ 50.71	\$ 417,051	\$ 70.35	\$ 254,403	\$50.09
Realized gain (loss) on derivatives	(22,085)	(7.58)	(56)	(0.02)	(19,678)	(3.32)	6,174	1.22
Royalties	(46,173)	(15.85)	(22,749)	(9.22)	(80,054)	(13.50)	(48,914)	(9.63)
Operating costs	(39,917)	(13.70)	(26,919)	(10.91)	(80,189)	(13.53)	(57,189)	(11.26)
Operating	\$ 122,778	\$ 42.14	\$ 75,407	\$ 30.56	\$ 237,130	\$ 40.00	\$ 154,474	\$ 30.42
General and administrative ⁽¹⁾	(6,831)	(2.34)	(4,232)	(1.72)	(13,924)	(2.35)	(8,948)	(1.76)
Interest	(7,118)	(2.44)	(5,005)	(2.03)	(14,884)	(2.51)	(10,192)	(2.01)
Interest on convertible debentures ⁽¹⁾	(4,204)	(1.44)	(3,293)	(1.33)	(8,391)	(1.42)	(6,531)	(1.29)
Income and capital taxes	(871)	(0.30)	(243)	(0.10)	(1,559)	(0.26)	(524)	(0.10)
Funds from operations	\$ 103,754	\$ 35.62	\$ 62,634	\$ 25.38	\$ 198,372	\$ 33.46	\$ 128,279	\$ 25.26

⁽¹⁾ General and administrative expense excludes non-cash unit-based compensation expense. Interest on convertible debentures excludes non-cash accretion expense.

Funds from operations of Advantage increased for both the three and six months ended June 30, 2008, compared to corresponding periods in 2007, due primarily to additional production from the Sound acquisition and greatly improved commodity prices. Cash netbacks per boe are also higher due to stronger realized commodity prices. Increased cash netbacks were partially offset by realized losses on derivatives, and increased operating expenses and royalties. Realized hedging losses resulted from the higher commodity price environment as the Fund entered derivative contracts to lessen commodity price fluctuations, which can positively or negatively impact cash flows and resulting distributions. Operating costs have steadily increased over the past year due to significantly higher field costs associated with supplies and services, an overall industry labour cost increase, and higher relative operating costs from the Sound acquisition. Specific to the Fund, we have experienced production outages caused by weather and turnaround shut-downs in 2008. Royalties have increased as would be expected since they are generally based on current commodity prices.

Contractual Obligations and Commitments

The Fund has contractual obligations in the normal course of operations including purchases of assets and services, operating agreements, transportation commitments, sales contracts and convertible debentures. These obligations are of a recurring and consistent nature and impact cash flow in an ongoing manner. The following table is a summary of the Fund's remaining contractual obligations and commitments. Advantage has no guarantees or off-balance sheet arrangements other than as disclosed.

(\$ millions)	Payments due by period					
	Total	2008	2009	2010	2011	2012
Building leases	\$ 13.4	\$ 2.1	\$ 4.1	\$ 4.1	\$ 1.8	\$ 1.3
Capital leases	7.0	0.8	2.1	2.2	1.9	-
Pipeline/transportation	5.7	2.0	2.4	1.0	0.3	-
Convertible debentures ⁽¹⁾	224.6	5.4	87.0	69.9	62.3	-
Total contractual obligations	\$ 250.7	\$ 10.3	\$ 95.6	\$ 77.2	\$ 66.3	\$ 1.3

⁽¹⁾ As at June 30, 2008, Advantage had \$224.6 million convertible debentures outstanding (excluding interest payable during the various debenture terms). Each series of convertible debentures are convertible to Trust Units based on an established conversion price. The Fund settled the principal amount of 9.00% convertible debenture by payment of \$5.4 million in cash on August 1, 2008. All remaining obligations related to convertible debentures have the option to be settled through the issuance of Trust Units.

⁽²⁾ Bank indebtedness of \$547.9 million has been excluded from the contractual obligations table as the credit facilities constitute a revolving facility for a 364 day term which is extendible annually for a further 364 day revolving period at the option of the syndicate. If not extended, the revolving credit facility is converted to a two year term facility with the first payment due one year and one day after commencement of the term.

Liquidity and Capital Resources

The following table is a summary of the Fund's capitalization structure.

(\$000, except as otherwise indicated)	June 30, 2008
Bank indebtedness (long-term)	\$ 547,946
Working capital deficit ⁽¹⁾	42,201
Net debt	\$ 590,147
Trust Units outstanding (000)	140,271
Trust Unit closing market price (\$/Trust Unit)	\$ 13.15
Market value	\$ 1,844,563
Convertible debentures maturity value (long-term)	\$ 184,489
Capital lease obligation (long-term)	5,008
Total capitalization	\$ 2,624,207

⁽¹⁾ Working capital deficit includes accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, distributions payable, and the current portion of capital lease obligations and convertible debentures.

Unitholders' Equity and Convertible Debentures

Advantage has utilized a combination of Trust Units, convertible debentures and bank debt to finance acquisitions and development activities.

As at June 30, 2008, the Fund had 140.3 million Trust Units outstanding. During the six months ended June 30, 2008, 1,854,776 Trust Units were issued as a result of the Premium Distribution^(TM), Distribution Reinvestment and Optional Trust Unit Purchase Plan (the "Plan"), generating \$19.5 million reinvested in the Fund and representing an approximate 20% participation rate (for six months ended June 30, 2007, 2,076,686 Trust Units were issued under the Plan, generating \$24.6 million reinvested in the Fund). As at August 14, 2008, Advantage had 140.6 million Trust Units issued and outstanding.

At both June 30, 2008 and December 31, 2007, the Fund had \$224.6 million convertible debentures outstanding that were immediately convertible to 9.8 million Trust Units based on the applicable conversion prices. During the period ended June 30, 2008, \$25,000 debentures were converted resulting in the issuance of 1,001 Trust Units. As at August 14, 2008, the convertible debentures outstanding have decreased to \$219.2 million given that the 9.00% debentures matured on August 1, 2008, resulting in a cash payment of \$5,392,000 to the debenture holders.

Advantage has a Trust Units Rights Incentive Plan for external directors as approved by the Unitholders of the Fund. A total of 500,000 Trust Units have been reserved for issuance under the plan with an aggregate of 400,000 rights granted since inception. The initial exercise price of rights granted under the plan may not be less than the current market price of the Trust Units as of the date of the grant and the maximum term of each right is not to exceed ten years with all rights vesting immediately upon grant. At the option of the rights holder, the exercise price of the rights can be adjusted downwards over time based upon distributions paid by the Fund to Unitholders. In June 2008, all remaining 150,000 outstanding rights were exercised at \$8.60 per right for total cash proceeds of \$1,290,000, of which \$322,500 was received after June 30, 2008.

Bank Indebtedness, Credit Facility and Other Obligations

At June 30, 2008, Advantage had bank indebtedness outstanding of \$547.9 million. The Fund has a \$710 million credit facility agreement consisting of a \$690 million extendible revolving loan facility and a \$20 million operating loan facility. The current credit facilities are collateralized by a \$1 billion floating charge demand debenture, a general security agreement and a subordination agreement from the Fund covering all assets and cash flows. During the second quarter, the Fund repaid \$15.6 million of bank indebtedness due to the strength of our operating results. Bank indebtedness is relatively unchanged from December 31, 2007. In June 2008, the Fund renewed its credit facilities for a further year with the next annual review scheduled to occur in June 2009.

Advantage had a working capital deficiency of \$42.2 million as at June 30, 2008. Our working capital includes items expected for normal operations such as trade receivables, prepaids, deposits, trade payables and accruals as well as the current portion of capital lease obligations and convertible debentures. Working capital varies primarily due to the timing of such items, the current level of business activity including our capital program, commodity price volatility, and seasonal fluctuations. Advantage has no unusual working capital requirements. We do not anticipate any problems in meeting future obligations as they become due given the strength of our funds from operations. It is also important to note that working capital is effectively integrated with Advantage's operating credit facility, which assists with the timing of cash flows as required.

Advantage has capital lease obligations on various pieces of equipment used in its operations. The total amount of principal obligation outstanding at June 30, 2008 is \$6.3 million, bearing interest at effective rates ranging from 5.5% to 6.7%, and is collateralized by the related equipment. The leases expire at dates ranging from December 2009 to August 2010.

Capital Expenditures

(\$000)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Land and seismic	\$ 11	\$ 1,581	\$ 4,181	\$ 3,921
Drilling, completions and workovers	9,425	15,475	46,169	42,610
Well equipping and facilities	11,978	8,464	37,576	28,574
Other	218	158	609	269
	\$ 21,632	\$ 25,678	\$ 88,535	\$ 75,374
Property acquisitions	-	-	-	12,851
Property dispositions	-	-	(91)	(427)
Total capital expenditures	\$ 21,632	\$ 25,678	\$ 88,444	\$ 87,798

Advantage's growth strategy has been to acquire properties in or near areas where we have large land positions, shallow to medium depth drilling opportunities, and a balance of year round access. We focus on areas where past activity has yielded long-life reserves with high cash netbacks. Advantage is very well positioned to selectively exploit the highest value-generating drilling opportunities given the size, strength and diversity of our asset base. As a result, the Fund has a high level of flexibility to distribute its capital program and ensure a risk-balanced platform of projects. Our preference is to operate a high percentage of our properties such that we can maintain control of capital expenditures, operations and cash flows.

For the three month period ended June 30, 2008, the Fund spent a net \$21.6 million. The majority of the capital expenditures for this quarter related to completions, tie-ins and the addition of new facilities related to bringing production on-stream from wells drilled during the very active first quarter winter drilling program. As operations wound down with the onset of seasonal spring breakup, only 3 net (4 gross) wells were drilled in the second quarter. Total capital spending in the quarter included \$8.5 million at Nevis, \$2.4 million at Sousa, \$1.3 million at Glacier, \$1.2 million at Willesden Green, and \$1.2 million at Martin Creek.

On June 27, 2008, the Board of Directors approved an increase of \$55.0 million to the 2008 capital expenditures budget, bringing the 2008 total capital expenditure budget to \$200.0 million. It is anticipated that these additional expenditures can be fully funded with funds from operations, and therefore no incremental debt or other financing will be required. The increased capital spending will be

primarily directed towards further drilling in our Montney natural gas resource play at Glacier in Northwest Alberta with the balance directed towards additional opportunities that have resulted from increased commodity prices.

Sources and Uses of Funds

The following table summarizes the various funding requirements during the six months ended June 30, 2008 and 2007 and the sources of funding to meet those requirements:

(\$000)	Six months ended June 30	
	2008	2007
Sources of funds		
Funds from operations	\$ 198,372	\$ 128,279
Units issued, net of costs	925	104,486
Increase in bank indebtedness	520	-
Property dispositions	91	427
	\$ 199,908	\$ 233,192
Uses of funds		
Expenditures on property and equipment	\$ 88,535	\$ 75,374
Distributions to Unitholders	80,632	79,305
Increase in working capital	23,882	27,123
Expenditures on asset retirement	5,947	3,707
Reduction of capital lease obligations	912	2,070
Decrease in bank indebtedness	-	32,762
Property acquisitions	-	12,851
	\$ 199,908	\$ 233,192

The Fund has enjoyed a substantial increase in funds from operations during 2008 from the higher production levels and stronger commodity price environment. As a result, the Fund has been able to adequately finance its capital expenditures and distributions to Unitholders without additional debt. We believe that our current strategy, including our capital program and distribution level, are balanced and will continue to ensure that Advantage is well positioned for future growth.

Quarterly Performance

(\$000, except as otherwise indicated)	2008			2007			2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Daily production								
Natural gas (mcf/d)	123,104	125,113	128,556	115,991	108,978	114,324	117,134	122,227
Crude oil and NGLs (bbls/d)	11,498	12,281	12,895	10,014	8,952	9,958	9,570	9,330
Total (boe/d)	32,015	33,133	34,321	29,346	27,115	29,012	29,092	29,701
Average prices								
Natural gas (\$/mcf)								
Excluding hedging	\$ 10.33	\$ 7.90	\$ 6.23	\$ 5.62	\$ 7.54	\$ 7.61	\$ 6.90	\$ 5.89
Including hedging	\$ 9.18	\$ 8.23	\$ 6.97	\$ 6.35	\$ 7.52	\$ 8.06	\$ 7.27	\$ 5.90
AECO monthly index	\$ 9.35	\$ 7.13	\$ 6.00	\$ 5.62	\$ 7.37	\$ 7.46	\$ 6.36	\$ 6.03
Crude oil and NGLs (\$/bbl)								
Excluding hedging	\$ 110.15	\$ 85.99	\$ 73.40	\$ 69.03	\$ 61.84	\$ 56.84	\$ 54.58	\$ 67.77
Including hedging	\$ 101.34	\$ 84.83	\$ 70.40	\$ 68.51	\$ 61.93	\$ 58.64	\$ 55.86	\$ 67.77
WTI (\$US/bbl)	\$ 124.00	\$ 97.96	\$ 90.63	\$ 75.33	\$ 65.02	\$ 58.12	\$ 60.21	\$ 70.55
Total revenues (before royalties)	\$ 208,868	\$188,505	\$165,951	\$130,830	\$125,075	\$135,502	\$127,539	\$124,521
Net income (loss)	\$ (14,369)	\$ (24,122)	\$ 13,795	\$ (26,202)	\$ 4,531	\$ 341	\$ 8,736	\$ 1,209
per Trust Unit – basic and diluted	\$ (0.10)	\$ (0.18)	\$ 0.10	\$ (0.22)	\$ 0.04	\$ 0.00	\$ 0.08	\$ 0.01
Funds from operations	\$ 103,754	\$ 94,618	\$ 80,519	\$ 62,345	\$ 62,634	\$ 65,645	\$ 62,737	\$ 63,110
Distributions declared	\$ 50,364	\$ 50,021	\$ 57,875	\$ 55,017	\$ 52,096	\$ 50,206	\$ 58,791	\$ 60,498

The table above highlights the Fund's performance for the second quarter of 2008 and also for the preceding seven quarters. A combination of natural reserve declines and spring breakup resulted in production decreases from the third quarter of 2006 through the second quarter of 2007. The second quarter of 2007 was further disrupted by several facility turnarounds in that period. The Sound acquisition closed on September 5, 2007, and significantly increased production for the third and fourth quarters of 2007. Production has gradually decreased since the acquisition of Sound once again due to natural declines combined with spring breakup and facility turnarounds that occurred in the second quarter of 2008. Financial results have also steadily improved during these periods, particularly revenues and funds from operations, as both commodity prices and production have generally increased. We experienced a net loss in the third quarter of 2007 due to a significant drop in natural gas prices realized at that time, amortization of the management internalization consideration and increased depletion and depreciation expense. Net income increased in the fourth quarter of 2007 due to the full integration of the Sound acquisition and moderately improved commodity prices. Net losses were realized in the first and second quarters of 2008, primarily as a result of significant unrealized losses on hedging positions for future periods. These losses are not cash and have no impact on our cash position, funds from operations, or our distributions.

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires Management to make certain judgments and estimates. Changes in these judgments and estimates could have a material impact on the Fund's financial results and financial condition.

Management relies on the estimate of reserves as prepared by the Fund's independent qualified reserves evaluator. The process of estimating reserves is critical to several accounting estimates. The process of estimating reserves is complex and requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development and production activities becomes available and as economic conditions impact crude oil and natural gas prices, operating costs, royalty burden changes, and future development costs. Reserve estimates impact net income through depletion and depreciation of fixed assets, the provision for asset retirement costs and related accretion expense, and impairment calculations for fixed assets and goodwill. The reserve estimates are also used to assess the borrowing base for the Fund's credit facilities. Revision or changes in the reserve estimates can have either a positive or a negative impact on net income and the borrowing base of the Fund.

Management's process of determining the provision for future income taxes, the provision for asset retirement obligation costs and related accretion expense, and the fair values assigned to any acquired company's assets and liabilities in a business combination is based on estimates. These estimates are significant and can include reserves, future production rates, future crude oil and natural gas prices, future costs, future interest rates, future tax rates and other relevant assumptions. Revisions or changes in any of these estimates can have either a positive or a negative impact on asset and liability values and net income.

In accordance with GAAP, derivative assets and liabilities are recorded at their fair values at the reporting date, with unrealized gains and losses recognized directly into net income and comprehensive income in the same period. The fair value of derivatives outstanding is an estimate based on pricing models, estimates, assumptions and market data available at that time. As such, the unrealized amounts are not cash and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions.

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants confirmed that publicly accountable entities will be required to adopt IFRS effective January 1, 2011, including preparation of comparative financial information. Management is currently evaluating the effects of adopting IFRS on its financial statements and is in the planning stage, including assessment and evaluation of key differences between Canadian GAAP and IFRS. Upon completion of this initial diagnosis stage, we will be organizing a detailed project plan to ensure all accounting differences are dealt with and implemented in a timely manner such that Advantage's financial statements are prepared in accordance with IFRS by the required deadline.

Controls and Procedures

The Fund has established procedures and internal control systems to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management of the Fund is committed to providing timely, accurate and balanced disclosure of all material information about the Fund. Disclosure controls and procedures are in place to ensure all ongoing reporting requirements are met and material information is disclosed on a timely basis. The Chief Executive Officer and Vice-President, Finance and Chief Financial Officer, individually, sign certifications that the financial statements, together with the other financial information included in the regular filings, fairly present in all material respects the financial condition, results of operations, and cash flows as of the dates and for the periods presented in the filings. The certifications further acknowledge that the filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the filings. During the six months ended June 30, 2008, there were no significant changes that would materially affect, or are reasonably likely to materially affect, the internal controls over financial reporting.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation. Further, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Outlook

The Fund's 2008 Budget, as approved by the Board of Directors, retains a high degree of activity and focus on drilling in many of our key properties where a high level of success was realized through 2007. Capital has also been directed to delineate the Montney natural gas resource play at Glacier in Northwest Alberta and to accommodate facility expansions and enhanced recovery schemes as necessary.

For 2008, we are forecasting production to be in the range of 32,000 to 34,000 boe/d. Advantage's 2008 capital expenditures budget was originally estimated to be approximately \$145 million to drill approximately 143 gross (88 net) wells. On June 27, 2008, the Board approved an increase of \$55 million to the capital budget, bringing the 2008 total capital budget to \$200 million. The additional capital spending will be directed primarily towards the Montney natural gas resource play at Glacier in Northwest Alberta, and any remainder towards additional opportunities. During the first quarter of 2008, the Fund drilled five vertical delineation wells in the Glacier property which helped confirm geological formations, reservoir productivity and pool continuity. Additional activity will be pursued during the balance of 2008 to further define longer term development plans. The Glacier property is accessible through most of the year and rigs have been secured to drill the additional wells. Approximately \$39 million will be spent on the next phase of development at Glacier where the Fund plans to drill five gross horizontal wells, five gross vertical delineation wells and initiate infrastructure expansion.

Operating costs on an annual basis are expected to now range between \$13.40 and \$13.90 per boe. Industry supply, servicing and maintenance costs have increased during the first six months of 2008 driven primarily from higher crude oil and natural gas prices. In particular, we have seen significant increases from electrical power costs, processing fees, steel and chemicals.

On October 25, 2007, the Alberta Provincial Government announced changes to royalties for conventional oil, natural gas and oil sands that will become effective January 1, 2009. Royalty rates will be commodity price sensitive and dependent on individual well productivity. Advantage has a significant number of lower rate wells producing within our long life Alberta properties. We also have a significant Horseshoe Canyon coal bed methane drilling inventory that can be pursued which will also have a favorable royalty treatment due to lower rate per well characteristics. Our exposure in Northeast British Columbia and Saskatchewan also affords us further flexibility with mitigating the royalty impact in our capital program. If the current higher price commodity environment were to continue, we would expect our future royalty rates to be higher than what we have historically experienced under the current royalty regime. We anticipate our royalty rates will range from 18% to 20% for the 2008 year.

Advantage's funds from operations in 2008 will continue to be impacted by the volatility of crude oil and natural gas prices and the \$US/\$Canadian exchange rate. Hedging has been completed for 2008 and a portion of 2009 to (i) stabilize cash flows and (ii) ensure that the Fund's capital program is substantially funded out of cash flow. Approximately 56% of our natural gas production, net of royalties, is hedged for the 2008 calendar year at an average price of \$7.52 Canadian per mcf. Advantage has also hedged 40% of its 2008 crude oil production, net of royalties, at an average price of \$94.07 Canadian per bbl.

Advantage will continue to follow its strategy of acquiring properties that provide highly economic development opportunities to enhance long-term cash flow. Advantage will also continue to focus on efficient production and reserve additions through low to medium risk development drilling opportunities that have arisen as a result of the acquisitions completed in prior years and from the significant inventory of drilling opportunities that has resulted from the Ketch and Sound acquisitions.

Looking forward, Advantage's high quality assets combined with a greater than five year conventional drilling inventory, exposure to the Montney natural gas resource play and excellent tax pools provides many options for the Fund and we are committed to maximizing value generation for our Unitholders.

Additional Information

Additional information relating to Advantage can be found on SEDAR at www.sedar.com and the Fund's website at www.advantageincome.com. Such other information includes the annual information form, the annual information circular – proxy statement, press releases, material contracts and agreements, and other financial reports. The annual information form will be of particular interest for current and potential Unitholders as it discusses a variety of subject matter including the nature of the business, structure of the Fund, description of our operations, general and recent business developments, risk factors, reserves data and other oil and gas information.

August 14, 2008

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

(thousands of dollars)	June 30, 2008 (unaudited)	December 31, 2007
Assets		
Current assets		
Accounts receivable	\$ 117,925	\$ 95,474
Prepaid expenses and deposits	14,939	21,988
Derivative asset (note 10)	545	7,027
	133,409	124,489
Derivative asset (note 10)	-	174
Fixed assets (note 3)	2,125,736	2,177,346
Goodwill	120,271	120,271
	\$ 2,379,416	\$ 2,422,280
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 117,232	\$ 122,087
Distributions payable to Unitholders	16,833	16,592
Current portion of capital lease obligations (note 4)	1,270	1,537
Current portion of convertible debentures (note 5)	39,730	5,333
Derivative liability (note 10)	122,246	2,242
	297,311	147,791
Derivative liability (note 10)	-	2,778
Capital lease obligations (note 4)	5,008	5,653
Bank indebtedness (note 6)	547,946	547,426
Convertible debentures (note 5)	179,221	212,203
Asset retirement obligations (note 7)	62,797	60,835
Future income taxes	22,683	66,727
	1,114,966	1,043,413
Unitholders' Equity		
Unitholders' capital (note 8)	2,053,471	2,027,065
Convertible debentures equity component (note 5)	9,632	9,632
Contributed surplus (note 8)	58	2,005
Accumulated deficit (note 9)	(798,711)	(659,835)
	1,264,450	1,378,867
	\$ 2,379,416	\$ 2,422,280
Commitments (note 12)		

see accompanying Notes to Consolidated Financial Statements

**Consolidated Statements of Income (Loss),
Comprehensive Income (Loss) and Accumulated Deficit**

(thousands of dollars, except for per Trust Unit amounts) (unaudited)	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenue				
Petroleum and natural gas	\$ 230,953	\$ 125,131	\$ 417,051	\$ 254,403
Realized gain (loss) on derivatives (note 10)	(22,085)	(56)	(19,678)	6,174
Unrealized gain (loss) on derivatives (note 10)	(62,696)	10,126	(123,882)	(1,903)
Royalties	(46,173)	(22,749)	(80,054)	(48,914)
	99,999	112,452	193,437	209,760
Expenses				
Operating	39,917	26,919	80,189	57,189
General and administrative	5,763	4,861	12,995	9,577
Management internalization (note 8)	2,439	5,350	4,930	10,719
Interest	7,118	5,005	14,884	10,192
Interest and accretion on convertible debentures	4,924	3,898	9,831	7,735
Depletion, depreciation and accretion	74,704	61,365	151,584	125,283
	134,865	107,398	274,413	220,695
Income (loss) before taxes	(34,866)	5,054	(80,976)	(10,935)
Future income tax expense (reduction)	(21,368)	280	(44,044)	(16,331)
Income and capital taxes	871	243	1,559	524
	(20,497)	523	(42,485)	(15,807)
Net income (loss) and comprehensive income (loss)	(14,369)	4,531	(38,491)	4,872
Accumulated deficit, beginning of period	(733,978)	(486,971)	(659,835)	(437,106)
Distributions declared	(50,364)	(52,096)	(100,385)	(102,302)
Accumulated deficit, end of period	\$ (798,711)	\$ (534,536)	\$ (798,711)	\$ (534,536)
Net income (loss) per Trust Unit (note 8)				
Basic and diluted	\$ (0.10)	\$ 0.04	\$ (0.28)	\$ 0.04

see accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(thousands of dollars) (unaudited)	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Operating Activities				
Net income (loss)	\$ (14,369)	\$ 4,531	\$ (38,491)	\$ 4,872
Add (deduct) items not requiring cash:				
Unrealized loss (gain) on derivatives	62,696	(10,126)	123,882	1,903
Unit-based compensation	(1,068)	629	(929)	629
Management internalization	2,439	5,350	4,930	10,719
Accretion on convertible debentures	720	605	1,440	1,204
Depletion, depreciation and accretion	74,704	61,365	151,584	125,283
Future income taxes	(21,368)	280	(44,044)	(16,331)
Expenditures on asset retirement	(982)	302	(5,947)	(3,707)
Changes in non-cash working capital	(8,890)	(13,004)	(16,950)	(24,120)
Cash provided by operating activities	93,882	49,932	175,475	100,452
Financing Activities				
Units issued, net of costs (note 8)	967	386	925	104,486
Increase (decrease) in bank indebtedness	(15,554)	23,369	520	(32,762)
Reduction of capital lease obligations	(306)	(1,719)	(912)	(2,070)
Distributions to Unitholders	(40,330)	(39,767)	(80,632)	(79,305)
Cash used in financing activities	(55,223)	(17,731)	(80,099)	(9,651)
Investing Activities				
Expenditures on property and equipment	(21,632)	(25,678)	(88,535)	(75,374)
Property acquisitions	-	-	-	(12,851)
Property dispositions	-	-	91	427
Changes in non-cash working capital	(17,027)	(6,523)	(6,932)	(3,003)
Cash used in investing activities	(38,659)	(32,201)	(95,376)	(90,801)
Net change in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Supplementary Cash Flow Information				
Interest paid	\$ 10,013	\$ 10,171	\$ 18,579	\$ 17,176
Taxes paid	\$ 638	\$ 469	\$ 792	\$ 830

see accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008 (unaudited)

All tabular amounts in thousands except as otherwise indicated.

The interim consolidated financial statements of Advantage Energy Income Fund (“Advantage” or the “Fund”) 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 year ended December 31, 2007, 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, 2007 as set out in Advantage’s Annual Report.

1. Changes in Accounting Policies

(a) Capital disclosures

Effective January 1, 2008, the Fund adopted CICA Handbook Section 1535, Capital Disclosures. This Section establishes standards for disclosing information about an entity’s capital and how it is managed to enable users of financial statements to evaluate the entity’s objectives, policies and procedures for managing capital. The adoption of this Section requires that information on capital management be included in the notes to the consolidated financial statements (note 11). This new standard does not have any effect on our financial position or results of operations.

(b) Comparative figures

Certain comparative figures have been reclassified to conform to the current year’s presentation.

(c) Recent accounting changes not implemented

(i) Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new Section will become effective January 1, 2009. Management has evaluated the new Section and there will be no impact for the financial statements of the Fund. The only applicable item for the Fund is goodwill, and the standards concerning goodwill are unchanged from the prior standard.

(ii) International Financial Reporting Standards (“IFRS”)

In February 2008, the CICA Accounting Standards Board confirmed that IFRS will replace Canadian GAAP effective January 1, 2011 for publicly accountable enterprises. Management is currently evaluating the effects of all current and pending pronouncements of the International Accounting Standards Board on the financial statements of the Fund, and is developing a plan for implementation.

2. Sound Energy Trust Acquisition

On September 5, 2007, Advantage acquired all of the issued and outstanding Trust Units and Exchangeable Shares of Sound Energy Trust (“Sound”) for \$21.4 million cash consideration, 16,977,184 Advantage Trust Units and \$0.9 million of acquisition costs. Sound Unitholders and Exchangeable Shareholders could elect to receive 0.30 Advantage Trust Units for each Sound Trust Unit or receive \$0.66 in cash and 0.2557 Advantage Trust Units for each Sound Trust Unit. All of the Sound Exchangeable Shares were exchanged for Advantage Trust Units on the same ratio as the Sound Trust Units based on the conversion ratio in effect at the effective date of the acquisition. Sound was an energy trust engaged in the development, acquisition and production of natural gas and crude oil in western Canada. The acquisition is being accounted for using the “purchase method” with the results of operations included in the consolidated financial statements as of the closing date of the acquisition.

The purchase price has been allocated as follows:

Net assets acquired and liabilities assumed:

Fixed assets	\$ 513,604
Accounts receivable	27,654
Prepaid expenses and deposits	3,873
Derivative asset, net	2,797
Bank indebtedness	(107,959)
Convertible debentures	(101,553)
Accounts payable and accrued liabilities	(39,565)
Future income taxes	(29,430)
Asset retirement obligations	(16,695)
Capital lease obligations	(1,567)
	<u>\$ 251,159</u>

Consideration:

16,977,184 Trust Units issued	\$ 228,852
Cash	21,403
Acquisition costs incurred	<u>904</u>
	<u>\$ 251,159</u>

The value of the Trust Units issued as consideration was determined based on the weighted average trading value of Advantage Trust Units during the two-day period before and after the terms of the acquisition were agreed to and announced. The allocation of the purchase price has been revised in 2008 due to the realization of estimates and is subject to further refinement as additional cost estimates and tax balances are finalized. As a result, fixed assets increased \$4.0 million, accounts receivable increased \$0.2 million, and accounts payable and accrued liabilities increased \$4.2 million.

3. Fixed Assets

June 30, 2008	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	\$ 3,113,515	\$ 993,153	\$2,120,362
Furniture and equipment	11,157	5,783	5,374
	<u>\$ 3,124,672</u>	<u>\$ 998,936</u>	<u>\$2,125,736</u>

December 31, 2007	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	\$ 3,016,243	\$ 844,671	\$2,171,572
Furniture and equipment	10,548	4,774	5,774
	<u>\$ 3,026,791</u>	<u>\$ 849,445</u>	<u>\$2,177,346</u>

During the six months ended June 30, 2008, Advantage capitalized general and administrative expenditures directly related to exploration and development activities of \$6,349,000 (June 30, 2007 - \$3,943,000).

4. Capital Lease Obligations

The Fund has capital leases on a variety of fixed assets. Future minimum lease payments at June 30, 2008 consist of the following:

2008	\$ 799
2009	2,040
2010	2,200
2011	1,925
	<u>6,964</u>
Less amounts representing interest	(686)
	<u>6,278</u>
Current portion	(1,270)
	<u>\$ 5,008</u>

5. Convertible Debentures

The balance of debentures outstanding at June 30, 2008 and changes in the liability and equity components during the six months ended June 30, 2008 are as follows:

	9.00%	8.25%	8.75%	7.50%
Debentures outstanding	\$ 5,392	\$ 4,867	\$ 29,839	\$ 52,268
Liability component:				
Balance at Dec. 31, 2007	\$ 5,333	\$ 4,767	\$ 29,382	\$ 50,671
Accretion of discount	50	46	152	451
Converted to Trust Units	-	-	-	-
Balance at June 30, 2008	\$ 5,383	\$ 4,813	\$ 29,534	\$ 51,122
Equity component:				
Balance at Dec. 31, 2007	\$ 229	\$ 248	\$ 852	\$ 2,248
Converted to Trust Units	-	-	-	-
Balance at June 30, 2008	\$ 229	\$ 248	\$ 852	\$ 2,248

	6.50%	7.75%	8.00%	Total
Debentures outstanding	\$ 69,927	\$ 46,766	\$ 15,528	\$ 224,587
Liability component:				
Balance at Dec. 31, 2007	\$ 68,092	\$ 44,360	\$ 14,931	\$ 217,536
Accretion of discount	368	300	73	1,440
Converted to Trust Units	(25)	-	-	(25)
Balance at June 30, 2008	\$ 68,435	\$ 44,660	\$ 15,004	\$ 218,951
Equity component:				
Balance at Dec. 31, 2007	\$ 2,971	\$ 2,286	\$ 798	\$ 9,632
Converted to Trust Units	-	-	-	-
Balance at June 30, 2008	\$ 2,971	\$ 2,286	\$ 798	\$ 9,632

During the six months ended June 30, 2008, \$25,000 debentures (June 30, 2007 - \$5,000 debentures) were converted resulting in the issuance of 1,001 Trust Units (June 30, 2007 - 375 Trust Units). The principal amount of 9.00% convertible debentures matured on August 1, 2008 and the Fund settled the obligation by payment of \$5.4 million in cash.

6. Bank Indebtedness

Advantage has a credit facility agreement with a syndicate of financial institutions which provides for a \$690 million extendible revolving loan facility and a \$20 million operating loan facility. The loan's interest rate is based on either prime, US base rate, LIBOR or bankers' acceptance rates, at the Fund's option, subject to certain basis point or stamping fee adjustments ranging from 0.00% to 1.50% depending on the Fund's debt to cash flow ratio. The credit facilities are collateralized by a \$1 billion floating charge demand debenture, a general security agreement and a subordination agreement from the Fund covering all assets and cash flows. The credit facilities are subject to review on an annual basis with the next review due in June 2009. Various borrowing options are available under the credit facilities, including prime rate-based advances, US base rate advances, US dollar LIBOR advances and bankers' acceptances loans. The credit facilities constitute a revolving facility for a 364 day term which is extendible annually for a further 364 day revolving period at the option of the syndicate. If not extended, the revolving credit facility is converted to a two year term facility with the first payment due one year and one day after commencement of the term. The credit facilities contain standard commercial covenants for facilities of this nature. The only financial covenant is a requirement for Advantage Oil & Gas Ltd. ("AOG") to maintain a minimum cash flow to interest expense ratio of 3.5:1, determined on a rolling four quarter basis. The credit facilities also prohibit the Fund from entering into any derivative contract where the term of such contract exceeds two years or the aggregate of such contracts hedge greater than 60% of the Fund's estimated oil and gas production. Breach of any covenant will result in an event of default in which case AOG has 20 days to remedy such default. If the default is not remedied or waived, and if required by the majority of lenders, the administrative agent of the lenders has the option to declare all obligations of AOG under the credit facilities to be immediately due and payable without further demand, presentation, protest, or notice of any kind. Distributions by AOG to the Fund (and effectively by the Fund to Unitholders) are subordinated to the repayment of any amounts owing under the credit facilities. Distributions to Unitholders are not permitted if the Fund is in default of such credit facilities or if the amount of the Fund's outstanding indebtedness under such facilities exceeds the then existing current borrowing base. Interest payments under the debentures are also subordinated to indebtedness under the credit facilities and payments under the debentures are similarly restricted. For the six months ended June 30, 2008, the effective interest rate on the outstanding amounts under the facility was approximately 5.4% (June 30, 2007 – 5.4%).

7. Asset Retirement Obligations

A reconciliation of the asset retirement obligations is provided below:

	Six months ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of period	\$ 60,835	\$ 34,324
Accretion expense	2,093	2,795
Assumed in Sound acquisition	-	16,695
Liabilities incurred and change in estimates	5,816	13,972
Liabilities settled	(5,947)	(6,951)
Balance, end of period	\$ 62,797	\$ 60,835

8. Unitholders' Equity

(a) Unitholders' capital

(i) Authorized

Unlimited number of voting Trust Units

(ii) Issued

	Number of Units	Amount
Balance at December 31, 2007	138,269,374	\$ 2,036,121
Distribution reinvestment plan	1,854,776	19,512
Issued for cash, net of costs	-	(42)
Issued on conversion of debentures	1,001	25
Issued on exercise of Trust Unit rights	150,000	1,981
Management internalization forfeitures	(4,193)	(84)
	140,270,958	\$ 2,057,513
Management internalization escrowed Trust Units		(4,042)
Balance at June 30, 2008		\$ 2,053,471

On June 23, 2006, Advantage internalized the external management contract structure and eliminated all related fees for total original consideration of 1,933,208 Advantage Trust Units initially valued at \$39.1 million and subject to escrow provisions over a 3-year period, vesting one-third each year beginning June 23, 2007. For the six months ended June 30, 2008, a total of 4,193 Trust Units issued for the management internalization were forfeited (June 30, 2007 – 14,139 Trust Units) and \$4.9 million has been recognized as management internalization expense (June 30, 2007 - \$10.7 million). As at June 30, 2008, 594,725 Trust Units remain held in escrow (December 31, 2007 – 1,193,622 Trust Units).

During the six months ended June 30, 2008, 1,854,776 Trust Units (June 30, 2007 – 2,076,686 Trust Units) were issued under the Premium Distribution^(TM), Distribution Reinvestment and Optional Trust Unit Purchase Plan, generating \$19.5 million (June 30, 2007 - \$24.6 million) reinvested in the Fund.

Effective June 25, 2002, a Trust Units Rights Incentive Plan for external directors was established and approved with a total of 500,000 Trust Units reserved for issuance and an aggregate of 400,000 rights granted since inception. At December 31, 2007, 150,000 rights remained outstanding under the plan, all of which were exercised at \$8.60 per right in June 2008 for total cash proceeds of \$1,290,000, of which \$322,500 was received after June 30, 2008. Contributed surplus of \$691,000 in respect of these rights has been transferred to Unitholders' capital. No rights are outstanding as of June 30, 2008.

(b) Contributed surplus

	Six months ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of period	\$ 2,005	\$ 863
Unit-based compensation	(1,256)	1,256
Expiration of convertible debentures equity component	-	58
Exercise of Trust Unit Rights	(691)	(172)
Balance, end of period	\$ 58	\$ 2,005

(c) Net income (loss) per Trust Unit

The calculations of basic and diluted net income (loss) per Trust Unit are derived from both income (loss) available to Unitholders and weighted average Trust Units outstanding, calculated as follows:

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Income (loss) available to Unitholders				
Basic and diluted	\$ (14,369)	\$ 4,531	\$ (38,491)	\$ 4,872
Weighted average Trust Units outstanding				
Basic	138,611,924	113,854,335	138,105,497	111,108,403
Trust Units Rights Incentive Plan	-	43,259	-	39,487
Management Internalization	-	223,495	-	152,844
Diluted	138,611,924	114,121,089	138,105,497	111,300,734

The calculation of diluted net income per Trust Unit excludes all series of convertible debentures for the three and six months ended June 30, 2008 and 2007 as the impact would be anti-dilutive. Total weighted average Trust Units issuable in exchange for the convertible debentures and excluded from the diluted net income per Trust Unit calculation for the three and six months ended June 30, 2008 were 9,846,252 and 9,846,610, respectively (June 30, 2007 – 8,334,353 and 8,334,403 Trust Units, respectively). As at June 30, 2008, the total convertible debentures outstanding were immediately convertible to 9,846,252 Trust Units (June 30, 2007 – 8,334,077 Trust Units).

All of the Trust Unit Rights and Management Internalization escrowed Trust Units have been excluded from the calculation of diluted net income per Trust Unit for the three and six months ended June 30, 2008, as the impact would be anti-dilutive. Total weighted average Trust Units issuable in exchange for the Trust Unit Rights and excluded from the diluted net income per Trust Unit calculation for the three and six months ended June 30, 2008 were 42,145 and 37,634. Total weighted average Trust Units issuable in exchange for the Management Internalization escrowed Trust Units and excluded from the diluted net income per Trust Unit calculation for the three and six months ended June 30, 2008 were 528,068 and 484,869, respectively.

9. Accumulated Deficit

Accumulated deficit consists of accumulated income and accumulated distributions for the Fund since inception as follows:

	June 30, 2008	December 31, 2007
Accumulated Income	\$ 181,497	\$ 219,988
Accumulated Distributions	(980,208)	(879,823)
Accumulated Deficit	\$ (798,711)	\$ (659,835)

For the six months ended June 30, 2008, the Fund declared \$100.4 million in distributions, representing \$0.72 per distributable Trust Unit (six months ended June 30, 2007 - \$102.3 million representing \$0.90 per distributable Trust Unit).

10. Financial Instruments

Financial instruments of the Fund include accounts receivable, deposits, accounts payable and accrued liabilities, distributions payable to Unitholders, bank indebtedness, convertible debentures and derivative assets and liabilities.

Accounts receivable and deposits are classified as loans and receivables and measured at amortized cost. Accounts payable and accrued liabilities, distributions payable to Unitholders and bank indebtedness are all classified as other liabilities and similarly measured at amortized cost. As at June 30, 2008, there were no significant differences between the carrying amounts reported on the balance sheet and the estimated fair values of these financial instruments due to the short terms to maturity and the floating interest rate on the bank indebtedness.

The Fund has convertible debenture obligations outstanding, of which the liability component has been classified as other liabilities and measured at amortized cost. The convertible debentures have different fixed terms and interest rates (note 5) resulting in fair values that will vary over time as market conditions change. As at June 30, 2008, the estimated fair value of the total outstanding convertible debenture obligation was \$227.7 million (December 31, 2007 - \$215.4 million). The fair value of the liability component of convertible debentures was determined primarily based on a discounted cash flow model assuming no future conversions and continuation of current interest and principal payments as well as taking into consideration the current public trading activity of such debentures. The Fund applied discount rates of between 5 and 6% considering current available market information, assumed credit adjustments, and various terms to maturity.

Advantage has an established strategy to manage the risk associated with changes in commodity prices by entering into derivatives, which are recorded at fair value as derivative assets and liabilities with gains and losses recognized through earnings. As the fair value of the contracts varies with commodity prices, they give rise to financial assets and liabilities. The fair values of the derivatives are determined through valuation models completed by third parties. Various assumptions based on current market information were used in these valuations, including settled forward commodity prices, interest rates, foreign exchange rates, volatility and other relevant factors. The actual gains and losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions.

Credit Risk

Accounts receivable, deposits, and derivative assets are subject to credit risk exposure and the carrying values reflect Management's assessment of the associated maximum exposure to such credit risk. Substantially all of the Fund's accounts receivable are due from customers and joint operation partners concentrated in the Canadian oil and gas industry. As such, accounts receivable are subject to normal industry credit risks. Advantage mitigates such credit risk by closely monitoring significant counterparties and dealing with a broad selection of partners that diversify risk within the sector. The Fund's deposits are primarily due from the Alberta Provincial government and are viewed by Management as having minimal associated credit risk. To the extent that Advantage enters derivatives to manage commodity price risk, it may be subject to credit risk associated with counterparties with which it contracts. Credit risk is mitigated by entering into contracts with only stable, creditworthy parties and through frequent reviews of exposures to individual entities. In addition, the Fund generally enters into derivative contracts with investment grade institutions that are members of Advantage's credit facility syndicate to further mitigate associated credit risk.

Liquidity Risk

The Fund is subject to liquidity risk attributed from accounts payable and accrued liabilities, distributions payable to Unitholders, bank indebtedness, convertible debentures, and derivative liabilities. Accounts payable and accrued liabilities, distributions payable to Unitholders and derivative liabilities are primarily due within one year of the balance sheet date and Advantage does not anticipate any problems in satisfying the obligations due to the strength of cash provided by operating activities and the existing credit facility. The Fund's bank indebtedness is subject to a \$710 million credit facility agreement which mitigates liquidity risk by enabling Advantage to manage interim cash flow fluctuations. The credit facility constitutes a revolving facility for a 364 day term which is extendible annually for a further 364 day revolving period at the option of the syndicate. If not extended, the revolving credit facility is converted to a two year term facility with the first payment due one year and one day after commencement of the term. The terms of the credit facility are such that it provides Advantage adequate flexibility to evaluate and assess liquidity issues if and when they arise. Additionally, the Fund regularly monitors liquidity related to obligations by evaluating forecasted cash flows, optimal debt levels, capital spending activity, working capital requirements, and other potential cash expenditures. This continual financial assessment process further enables the Fund to mitigate liquidity risk.

Advantage has several series of convertible debentures outstanding that mature from 2008 to 2011 (note 5). Interest payments are made semi-annually with excess cash provided by operating activities. As the debentures become due, the Fund can satisfy the obligations in cash or issue Trust Units at a price determined in the applicable debenture agreements. This settlement alternative allows the Fund to adequately manage liquidity, plan available cash resources and implement an optimal capital structure.

To the extent that Advantage enters derivatives to manage commodity price risk, it may be subject to liquidity risk as derivative liabilities become due. While the Fund has elected not to follow hedge accounting, derivative instruments are not entered for speculative purposes and Management closely monitors existing commodity risk exposures. As such, liquidity risk is mitigated since any losses actually realized are subsidized by increased cash flows realized from the higher commodity price environment.

Interest Rate Risk

The Fund is exposed to interest rate risk to the extent that bank indebtedness is at a floating rate of interest and the Fund's maximum exposure to interest rate risk is based on the effective interest rate and the current carrying value of the bank indebtedness. The Fund monitors the interest rate markets to ensure that appropriate steps can be taken if interest rate volatility compromises the Fund's cash flows. A 1% interest rate fluctuation for the six months ended June 30, 2008 could potentially have impacted net income by approximately \$1.9 million for that period.

Price and Currency Risk

Advantage's derivative assets and liabilities are subject to both price and currency risks as their fair values are based on assumptions including forward commodity prices and foreign exchange rates. The Fund enters derivative financial instruments to manage commodity price risk exposure relative to actual commodity production and does not utilize derivative instruments for speculative purposes. Changes in the price assumptions can have a significant effect on the fair value of the derivative assets and liabilities and thereby impact net income. It is estimated that a 10% change in the forward natural gas prices used to calculate the fair value of the natural gas derivatives at June 30, 2008 could impact net income by approximately \$15.1 million for the six months ended June 30, 2008. As well, a change of 10% in the forward crude oil prices used to calculate the fair value of the crude oil derivatives at June 30, 2008 could impact net income by \$6.9 million for the six months ended June 30, 2008. A change of 10% in the forward power prices used to calculate the fair value of the power derivatives at June 30, 2008 could impact net income by \$0.1 million for the six months ended June 30, 2008. A similar change in the currency rate assumption underlying the derivatives fair value does not have a material impact on net income. As at June 30, 2008 the Fund had the following derivatives in place:

Description of Derivative	Term	Volume	Average Price
Natural gas - AECO			
Fixed price	April 2008 to October 2008	14,217 mcf/d	Cdn\$6.85/mcf
Fixed price	April 2008 to October 2008	9,478 mcf/d	Cdn\$7.25/mcf
Fixed price	April 2008 to October 2008	14,217 mcf/d	Cdn\$7.83/mcf
Fixed price	April 2008 to March 2009	14,217 mcf/d	Cdn\$7.10/mcf
Fixed price	April 2008 to March 2009	14,217 mcf/d	Cdn\$7.06/mcf
Fixed price	November 2008 to March 2009	14,217 mcf/d	Cdn\$7.77/mcf
Fixed price	November 2008 to March 2009	4,739 mcf/d	Cdn\$8.10/mcf
Fixed price	November 2008 to March 2009	14,217 mcf/d	Cdn\$9.45/mcf
Crude oil – WTI			
Fixed price	February 2008 to January 2009	2,000 bbls/d	Cdn\$90.93/bbl
Collar	February 2008 to January 2009	2,000 bbls/d	Sold put Cdn\$70.00/bbl Purchase call Cdn\$105.00/bbl Cost Cdn\$1.52/bbl
Fixed price	April 2008 to March 2009	2,500 bbls/d	Cdn\$97.15/bbl
Electricity – Alberta Pool Price			
Fixed price	January 2008 to December 2008	3.0 MW	Cdn\$54.00/MWh

As at June 30, 2008, the fair value of the derivatives outstanding resulted in an asset of approximately \$545,000 (December 31, 2007 – \$7,201,000) and a liability of approximately \$122,246,000 (December 31, 2007 – \$5,020,000). For the six months ended June 30, 2008, \$123,882,000 was recognized in income as an unrealized derivative loss (June 30, 2007 - \$1,903,000 unrealized derivative loss) and \$19,678,000 was recognized in income as a realized derivative loss (June 30, 2007 – \$6,174,000 realized derivative gain).

11. Capital Management

The Fund manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including replacement of production, funding of future growth opportunities, and pursuit of accretive acquisitions; and
- To maximize Unitholder return and provide stable distributions that will enhance the Trust Unit value.

Advantage monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Fund is composed of working capital (excluding derivative assets and liabilities), bank indebtedness, convertible debentures, capital lease obligations and Unitholders' equity. The Fund internally views convertible debentures as another form of equity as the obligations can be settled through the issuance of Trust Units. Advantage may manage its capital structure by issuing new Trust Units, obtaining additional financing either through bank indebtedness or convertible debenture issuances, refinancing current debt, issuing other financial or equity-based instruments, adjusting the amount of monthly distributions, suspending or renewing its distribution reinvestment plan, adjusting capital spending, or disposing of non-core assets. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis. Advantage's capital structure as at June 30, 2008 is as follows:

	June 30, 2008
Bank indebtedness (long-term)	\$ 547,946
Working capital deficit ⁽¹⁾	42,201
Net debt	590,147
Trust Units outstanding market value	1,844,563
Convertible debentures maturity value (long-term)	184,489
Capital lease obligations (long-term)	5,008
Total	\$ 2,624,207

⁽²⁾ Working capital deficit includes accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, distributions payable, and the current portion of capital lease obligations and convertible debentures.

The Fund's bank indebtedness is governed by a \$710 million credit facility agreement (note 6) that contains standard commercial covenants for facilities of this nature. The only financial covenant is a requirement for AOG to maintain a minimum cash flow to interest expense ratio of 3.5:1, determined on a rolling four quarter basis. The Fund is in compliance with all credit facility covenants. As well, the borrowing base for the Fund's credit facilities is determined through utilizing the regular reserve estimates. Revision or changes in the reserve estimates can have either a positive or a negative impact on the borrowing base of the Fund. Advantage's issuance of convertible debentures is limited by its Trust Indenture which currently restricts the issuance of additional convertible debentures to 25% of market capitalization subsequent to issuance. Advantage's Trust Indenture also provides for the issuance of an unlimited number of Trust Units. However, through new tax legislation, an income trust is restricted to doubling its market capitalization as it stands on October 31, 2006 by growing a maximum of 40% in 2007 and 20% for the years 2008 to 2010. In addition, an income trust may replace debt that was outstanding as of October 31, 2006 with new equity or issue new, non-convertible debt without affecting the normal growth percentage. As a result of the "normal growth" guidelines, the Fund is permitted to issue approximately \$2.0 billion of new equity from October 31, 2006 to January 1, 2011, which we believe is adequate for any growth we expect to incur. If an income trust exceeds the established limits on the issuance of new trust units and convertible debt that constitute normal growth, the income trust will be immediately subject to the Specified Investment Flow-Through Entity tax legislation whereby the taxable portion of distributions paid will be subject to tax at the trust level.

Management of the Fund's capital structure is facilitated through its financial and operational forecasting processes. The forecast of the Fund's future cash flows is based on estimates of production, commodity prices, forecast capital and operating expenditures, and other investing and financing activities. The forecast is regularly updated based on new commodity prices and other changes, which the Fund views as critical in the current environment. Selected forecast information is frequently provided to the Board of Directors.

The Fund's capital management objectives, policies and processes have remained unchanged during the six month period ended June 30, 2008.

12. Commitments

Advantage has several lease commitments relating to office buildings. The estimated remaining annual minimum operating lease rental payments for the buildings are as follows:

2008	\$ 2,055
2009	4,126
2010	4,141
2011	1,735
2012	1,314
	<hr/>
	\$ 13,371
	<hr/>

Directors

Steven E. Balog⁽²⁾
Gary F. Bourgeois
Kelly I. Drader
John A. Howard⁽²⁾
Andy J. Mah
Ronald A. McIntosh⁽¹⁾⁽²⁾
Sheila H. O'Brien⁽³⁾
Carol D. Pennycook⁽¹⁾⁽³⁾
Steven B. Sharpe⁽³⁾
Rodger A. Tourigny⁽¹⁾⁽³⁾

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Reserve Evaluation Committee

⁽³⁾ Member of Human Resources, Compensation & Corporate Governance Committee

Officers

Kelly I. Drader, CEO
Andy J. Mah, President and COO
Patrick J. Cairns, Senior Vice President
Gary F. Bourgeois, Vice President, Corporate Development
Peter A. Hanrahan, Vice President, Finance & CFO
David Cronkhite, Vice President, Operations
Weldon M. Kary, Vice President, Geosciences and Land
Neil Bokenfohr, Vice President, Exploitation

Corporate Secretary

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

Operating Company

Advantage Oil & Gas Ltd.

Auditors

PricewaterhouseCoopers LLP

Bankers

The Bank of Nova Scotia
National Bank of Canada
Bank of Montreal
Royal Bank of Canada
Canadian Imperial Bank of Commerce
Union Bank of California, Canada Branch
Alberta Treasury Branches
BNP Paribas (Canada)
HSBC Bank Canada

Independent Reserve Evaluators

Sproule Associates Limited

Legal Counsel

Burnet, Duckworth and Palmer LLP

Abbreviations

bbls - barrels
bbls/d - barrels per day
boe - barrels of oil equivalent (6 mcf = 1 bbl)
boe/d - barrels of oil equivalent per day
mcf - thousand cubic feet
mcf/d - thousand cubic feet per day
mmcf - million cubic feet
mmcf/d - million cubic feet per day
gj - gigajoules
NGLs - natural gas liquids
WTI - West Texas Intermediate
TM - denotes trademark of Canaccord Capital Corporation

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Toronto Stock Exchange Trading Symbols

Trust Units: AVN.UN
9% Convertible Debentures: AVN.DBA
8.25% Convertible Debentures: AVN.DBB
7.5% Convertible Debentures: AVN.DBC
7.75% Convertible Debentures: AVN.DBD
6.50% Convertible Debentures: AVN.DBE
8.75% Convertible Debentures: AVN.DBF
8% Convertible Debentures: AVN.DBG

New York Stock Exchange Trading Symbol

Trust Units: AAV