



ADVANTAGE

ENERGY INCOME FUND

Q2

2006 Second Quarter Report

Financial and Operating Highlights

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Financial (\$000)				
Revenue before royalties	\$ 80,766	\$ 87,476	\$ 167,667	\$ 170,685
per Unit ⁽¹⁾	\$ 1.29	\$ 1.53	\$ 2.76	\$ 3.06
per boe	\$ 48.48	\$ 48.01	\$ 51.42	\$ 45.67
Funds from operations	\$ 42,281	\$ 49,705	\$ 88,911	\$ 95,060
per Unit ⁽²⁾	\$ 0.62	\$ 0.87	\$ 1.41	\$ 1.69
per boe	\$ 25.39	\$ 27.28	\$ 27.27	\$ 25.43
Net income	\$ 23,905	\$ 26,537	\$ 39,869	\$ 30,552
per Trust Unit - basic	\$ 0.38	\$ 0.46	\$ 0.66	\$ 0.55
Cash distributions declared	\$ 53,498	\$ 44,693	\$ 97,957	\$ 91,032
per Unit ⁽²⁾	\$ 0.75	\$ 0.78	\$ 1.50	\$ 1.62
Payout ratio (%)	127%	90%	110%	96%
Expenditures on property and equipment	\$ 27,782	\$ 19,328	\$ 48,771	\$ 52,521
Working capital deficit ⁽³⁾	\$ 13,774	\$ 17,283	\$ 13,774	\$ 17,283
Bank indebtedness (long-term)	\$ 500,837	\$ 237,302	\$ 500,837	\$ 237,302
Convertible debentures (face value)	\$ 180,795	\$ 143,881	\$ 180,795	\$ 143,881
Operating				
Daily Production				
Natural gas (mcf/d)	70,293	79,492	68,043	82,902
Crude oil and NGLs (bbls/d)	6,593	6,772	6,676	6,832
Total boe/d @ 6:1	18,309	20,021	18,017	20,649
Average prices (including hedging)				
Natural gas (\$/mcf)	\$ 6.18	\$ 7.30	\$ 7.39	\$ 6.87
Crude oil and NGLs (\$/bbl)	\$ 68.69	\$ 56.24	\$ 63.44	\$ 54.63
Supplemental (000)				
Trust Units outstanding at end of period	94,689	57,340	94,689	57,340
Trust Units issuable				
Convertible Debentures	8,339	7,318	8,339	7,318
Exchangeable Shares	-	120	-	120
Trust Units Rights Incentive Plan	273	310	273	310
Trust Units outstanding and issuable at end of period	103,301	65,088	103,301	65,088
Basic Weighted average Units	62,710	57,274	60,803	55,741

⁽¹⁾ based on basic weighted average Trust Units outstanding

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

⁽³⁾ working capital deficit excludes hedging assets and liabilities

MESSAGE TO UNITHOLDERS

Highlights of the second quarter include:

- On June 23, 2006, the merger between Advantage and Ketch Resources Trust (“Ketch”) successfully closed. Advantage anticipates the following benefits to the Ketch merger:
 - The merger has created a stronger single entity with a more balanced portfolio of assets by combining Advantage’s longer-life reserve base and infill drilling potential with Ketch’s large undeveloped land base and significant prospect inventory.
 - The combined trust is managed by an experienced team of professionals comprised of key managers from both entities who have demonstrated their ability to deliver on acquisition, development, exploitation and financial management objectives.
 - Unitholders will benefit from an increase in property diversification, the ability to pursue a greater range of high impact growth opportunities available to a larger entity and complimentary summer/winter drilling programs.
- Funds from operations for the second quarter was \$42.3 million or \$0.62 per Trust Unit compared to \$46.6 million or \$0.79 per Trust Unit in the first quarter of 2006. This represents a payout ratio of 127% of funds from operations for the three months ended June 30, 2006 and 110% for the six months ended June 30, 2006. The high payout ratio in the second quarter is due to lower realized gas prices and the timing of closing the merger with Ketch. The financial and operational information for the six months ended June 30, 2006 reflect just eight days of operations from the Ketch properties effective from the June 23, 2006 closing date. Given that funds from operations only includes eight days from the Ketch properties while a full month of distributions were paid on the corresponding Trust Units issued, this has adversely impacted the payout ratio for the current quarter which does not reflect the Fund’s ongoing cash flow and distribution levels. In addition, the second quarter does not reflect the reduced distribution level from \$0.25 per Unit to \$0.20 per Unit which is effective for July 2006. The previously announced reduction in the distribution level is the result of the continued weakness in natural gas prices.
- The Fund declared three distributions during the quarter totalling \$0.75 per Trust Unit. The distributions amounted to \$0.25 per Trust Unit, payable on May 15, June 15 and July 17 to Unitholders of record on April 28, May 31 and June 30, respectively. Since inception, the Fund has distributed \$545 million or \$13.33 per Trust Unit.
- Production volumes in the second quarter of 2006 were 18,309 boe/d compared to 17,721 boe/d in the first quarter of 2006. Included in Advantage’s results for the second quarter is 8 days of operations related to the Ketch assets.
- Natural gas production for the second quarter of 2006 was 70.3 mmcf/d, compared to 65.8 mmcf/d reported in the first quarter of 2006. Production volumes in the second quarter are higher due to the inclusion of eight days of Ketch production, several negative one time adjustments recognized in the first quarter partially offset by normal declines combined with very little capital expended in the first six months related to natural gas projects.
- Crude oil and natural gas liquids production averaged 6,593 bbls/d compared to 6,760 bbls/d in the first quarter of 2006. Continued successful development drilling of Advantage’s long life crude oil production assets will see liquids production stabilize and may grow slightly during the last half of 2006.
- Capital spending totalled \$27.8 million for the second quarter of 2006 and \$48.8 million for the six months ended June 30, 2006. The second quarter expenditures were focused in Central and Southern Alberta. During the second quarter the Fund participated in the drilling of 26.4 net (34 gross) wells at a 98% success rate. Three 100% working interest horizontal oil wells were drilled at Nevis, and 4.2 net (6 gross) vertical oil wells at Sunset. The most recent Nevis drills have been very successful. This success can be attributed to Advantage’s increased understanding of the pool that has been developed through the Fund’s past drilling programs on this technically complex reservoir. A waterflood study is well underway for this property. In addition 10 natural gas wells were drilled at Medicine Hat and three natural gas wells were drilled at Shouldice, both properties at 100% working interest. A single 50% working interest gas well was also drilled at Sweetgrass, Alberta. Other capital spending related to a variety of wells, with smaller working interests, and facilities necessary to support the 2006 drilling activity. Behind pipe volumes were approximately 1,500 boe/d as we entered the third quarter. This production will be brought on over the third and fourth quarters and will help in offsetting normal declines.

Hedging Update

- Advantage has layered in several hedges on both natural gas and oil which will provide floor protection through the winter and next summer.
- The Fund currently has approximately 45% of natural gas hedged for winter at an average floor price of \$8.42/mcf and an average ceiling of \$11.45/mcf. In addition, 25% of crude oil has been hedged for the same period at an average floor of US\$64.00/bbl and a ceiling of US\$86.00/bbl.
- Advantage has been opportunistic with respect to hedging and will continue to monitor the forward prices to protect cash flow.

Looking Forward

- The merger of Advantage and Ketch has created a very high quality long life asset base with a large inventory of drilling opportunities allowing an increased flexibility for capital allocation and upgrading.
- The second half 2006 capital program has been modified to emphasize infill and development light oil opportunities driven by increased oil prices and better economics. Areas of focus will include Nevis, Sunset, Westeros, and Southeast Saskatchewan. The second half 2006 capital program is expected to be approximately \$100 million with an estimated 110 gross wells to be drilled.
- Natural gas opportunities have been re-scheduled for drilling and the Fund expects those opportunities to be brought on-stream during the latter part of 2006 which will coincide with the increased natural gas prices that have been secured for that period through the Fund's hedging program. Areas of focus include Sweetgrass, Medicine Hat, Central Alberta coal bed methane, Worsley, and Ferrier/Ochiese.
- Wet weather causing drilling and completion delays in the second quarter, along with anticipated third party outages in the third quarter will affect production but the emphasis on oil opportunities will help preserve high netbacks. In addition, behind pipe volumes of approximately 1,500 boe/d at the end of the second quarter will aid in offsetting declines as these projects will be brought on-stream over the balance of 2006.

MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of August 11, 2006, 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 months ended June 30, 2006 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, 2005. 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 6:1 conversion rate for natural gas to oil.

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

	Three months ended June 30			Six months ended June 30		
	2006	2005	% change	2006	2005	% change
Cash provided by operating activities	\$ 44,741	\$ 32,369	38%	\$ 84,621	\$ 70,977	19%
Expenditures on asset retirement	414	330	25%	1,447	737	96%
Changes in non-cash working capital	(2,874)	17,006	(117)%	2,843	23,346	(88)%
Funds from operations	\$ 42,281	\$ 49,705	(15)%	\$ 88,911	\$ 95,060	(6)%

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 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; and obtaining required approvals of regulatory authorities. Advantage's actual results, performance or achievement could differ materially from those expressed in, or implied by, such forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur or, if any of them do, what benefits that Advantage will derive from them. Except as required by law, Advantage undertakes no obligation to publicly update or revise any forward-looking statements.

Merger with Ketch Resources Trust

On June 22, 2006, the previously announced merger of Advantage and Ketch Resources Trust (“Ketch”) was approved by 96.6% of the votes cast at the Advantage Unitholder meeting and 88.4% of the votes cast at the Ketch Unitholder meeting. Court approval was received on June 22, 2006 with closing of the Arrangement and the successful merger of the two trusts occurring the following day. The financial and operational information for the six months ended June 30, 2006 reflect just eight days of operations from the Ketch properties effective the closing date. The combined trust will be managed by an experienced senior management team which includes key management, technical and administrative personnel from both Advantage and Ketch. The merger was accomplished through the exchange of each Ketch unit for 0.565 of an Advantage unit and upon completion, Advantage Unitholders owned approximately 65% of the combined trust and Ketch Unitholders owned approximately 35%.

The merger was conditional on Advantage internalizing the external management contract structure and eliminating all related fees. The Fund reached an agreement with Advantage Investment Management Ltd. (“AIM” or the “Manager”) to purchase all of the outstanding shares of AIM pursuant to the terms of the Arrangement for total consideration of 1,933,208 Advantage Trust Units valued at \$39.1 million using the weighted average trading value for June 22, 2006 of \$20.23 per Advantage Trust Unit. The Trust Unit consideration was placed in escrow for a 3-year period ensuring Advantage Unitholders will receive continued benefit and commitment of the existing management team and employees. The Fund paid management fees and performance fees for the period January 1 to March 31, 2006 in the amount of \$3.3 million. The consideration to settle the fees consisted of \$0.9 million in cash and 117,662 Trust Units. AIM agreed to forego fees for the period April 1, 2006 to the closing of the Arrangement.

Overview

	Three months ended June 30			Six months ended June 30		
	2006	2005	% change	2006	2005	% change
Funds from operations (\$000)	\$ 42,281	\$ 49,705	(15)%	\$ 88,911	\$ 95,060	(6)%
per Trust Unit	\$ 0.62	\$ 0.87	(29)%	\$ 1.41	\$ 1.69	(17)%
Net income (\$000)	\$ 23,905	\$ 26,537	(10)%	\$ 39,869	\$ 30,552	30%
per Trust Unit - Basic	\$ 0.38	\$ 0.46	(17)%	\$ 0.66	\$ 0.55	20%
- Diluted	\$ 0.38	\$ 0.46	(17)%	\$ 0.65	\$ 0.55	18%

Funds from operations decreased 15% for the three months and 6% for the six months ended June 30, 2006, as compared to the same periods of 2005. Funds from operations per Trust Unit decreased 29% and 17% respectively. The decrease in funds from operations has been primarily due to weak natural gas prices and lower production. The same factors have also negatively impacted net income which decreased 10% for the three months ended June 30, 2006, as compared to 2005. Net income increased 30% for the six months ended June 30, 2006 due to reduced Federal and Alberta provincial tax rates and the resulting future income tax reduction. Net income per basic Trust Unit decreased 17% for the three months and increased 20% for the six months ended June 30, 2006. The primary factor that causes significant variability of Advantage’s funds from operations, cash flows 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.

Cash Distributions

	Three months ended June 30			Six months ended June 30		
	2006	2005	% change	2006	2005	% change
Cash distributions declared (\$000)	\$ 53,498	\$ 44,693	20%	\$ 97,957	\$ 91,032	8%
per Trust Unit ⁽¹⁾	\$ 0.75	\$ 0.78	(4)%	\$ 1.50	\$ 1.62	(7)%
Payout ratio (%)	127%	90%	37%	110%	96%	14%

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

Cash distributions per Trust Unit were \$0.75 for the three months and \$1.50 for the six months ended June 30, 2006. The number of Trust Units increased significantly from the Ketch merger prior to the June record date which resulted in a much higher June distribution. Given that funds from operations only includes eight days of cash flows from the Ketch properties while a full month of distributions were paid on the corresponding Trust Units issued, this has adversely impacted the payout ratio for the current quarter which does not reflect the Fund’s ongoing cash flow and distribution levels. During the quarter we assessed the current distribution

policy with the objective of providing long-term sustainability and decreased the July 2006 distribution to \$0.20 per Trust Unit due to the continued weakness in natural gas prices.

Cash distributions 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, taxability to Unitholders, working capital requirements, and other potential cash expenditures. Cash distributions are announced monthly and are based on the cash available after retaining a portion to meet such spending requirements. The level of cash 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 cash distributions will decline over time in a manner consistent with declining production from typical oil and natural gas reserves. Therefore, cash distributions are highly dependent upon our success in exploiting the current reserve base and acquiring additional reserves. Furthermore, monthly cash 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. It is our long-term objective to provide stable and sustainable cash distributions to the Unitholders, while continuing to grow the Fund.

Revenue

(\$000)	Three months ended June 30			Six months ended June 30		
	2006	2005	% change	2006	2005	% change
Natural gas excluding hedging	\$ 39,553	\$ 52,577	(25)%	\$ 91,011	\$ 103,239	(12)%
Realized hedging gains (losses)	-	238	-	-	(104)	-
Natural gas including hedging	\$ 39,553	\$ 52,815	(25)%	\$ 91,011	\$ 103,135	(12)%
Crude oil and NGLs excluding hedging	\$ 41,213	\$ 34,862	18%	\$ 76,656	\$ 67,751	13%
Realized hedging gains (losses)	-	(201)	-	-	(201)	-
Crude oil and NGLs including hedging	\$ 41,213	\$ 34,661	19%	\$ 76,656	\$ 67,550	13%
Total revenue	\$ 80,766	\$ 87,476	(8)%	\$ 167,667	\$ 170,685	(2)%

Natural gas revenues have decreased 25% in the three months and 12% in the six months ended June 30, 2006, mainly due to the weak natural gas prices and decreased production levels. Crude oil and NGL revenues have increased by 19% for the three months and 13% for the six months ended June 30, 2006 compared to 2005 due to a combination of stronger commodity prices offset slightly by lower production levels.

Production

	Three months ended June 30			Six months ended June 30		
	2006	2005	% change	2006	2005	% change
Natural gas (mcf/d)	70,293	79,492	(12)%	68,043	82,902	(18)%
Crude oil (bbls/d)	5,321	5,687	(6)%	5,467	5,689	(4)%
NGLs (bbls/d)	1,272	1,085	17%	1,209	1,143	6%
Total (boe/d)	18,309	20,021	(9)%	18,017	20,649	(13)%
Natural gas (%)	64%	66%		63%	67%	
Crude oil (%)	29%	28%		30%	28%	
NGLs (%)	7%	6%		7%	5%	

The Fund's total daily production averaged 18,309 boe/d for the second quarter ended June 30, 2006, a decrease of 9% compared with the same period of 2005. Natural gas production decreased 12% and crude oil production declined 6%, partially offset by a 17% increase in NGLs production. Average daily production for the six months ended June 30, 2006 was 18,017 boe/d.

The decrease in production has been primarily attributed to normal production declines of gas producing properties such as Bantry, Medicine Hat and Shouldice. Production has also been impacted by maximum rate limitations (“MRL”) initiated on our Chip Lake and Nevis properties beginning January 1, 2006. As a result of these MRL restrictions, production for the six months ended June 30, 2006 was reduced by approximately 450 boe/d. This decreased production has been partially offset during the second quarter of 2006 with 310 boe/d of new production additions from successful drilling at Nevis, Alberta. In addition the Fund added approximately 450 boe/d of new production late in the quarter from the successful drilling program at Sunset, Alberta.

For the second half of 2006 the Fund has shifted its capital program to further oil development due to superior project economics. In the coming quarters, new production additions from late second quarter tie-ins and the high quality capital program for the second half of 2006 will help offset natural declines. In addition, production increases associated with the acquisition of Ketch will have a greater impact during the third quarter of 2006 as only eight days of production has been recognized and reported for the three and six months ended June 30, 2006.

Commodity Prices and Marketing

Natural Gas

(\$/mcf)	Three months ended June 30			Six months ended June 30		
	2006	2005	% change	2006	2005	% change
Realized natural gas prices						
Excluding hedging	\$ 6.18	\$ 7.27	(15)%	\$ 7.39	\$ 6.88	7%
Including hedging	\$ 6.18	\$ 7.30	(15)%	\$ 7.39	\$ 6.87	8%
AECO monthly index	\$ 6.28	\$ 7.38	(15)%	\$ 7.78	\$ 7.04	11%

Realized natural gas prices, excluding hedging, decreased 15% for the three months and increased 7% for the six months ended June 30, 2006, as compared to 2005. The price of natural gas is primarily based on supply and demand fundamentals in the North American marketplace. Due to the 2005 hurricane season in the Gulf of Mexico, production from the region has been slow to recover and there had been initial supply concerns prior to winter. Despite the supply difficulties, natural gas prices began to weaken near the end of December 2005 and the weakness has continued through the second quarter of 2006 as North America recorded one of the mildest winters on record, which had a negative effect on demand. This weather has helped to alleviate any short-term supply concerns and uncertainty regarding adequacy of current natural gas inventory, which continues at record levels. However, we continue to believe that the long-term pricing fundamentals for natural gas remain strong. These fundamentals include (i) the continued strength of crude oil prices, which has eliminated the economic advantage of fuel switching away from natural gas, (ii) long-term tightness in supply that has resulted from increased demand and the decline in North American natural gas production levels and (iii) ongoing weather related factors such as hot summers, cold winters and annual hurricane season in the Gulf of Mexico, all of which have an impact on the delicate supply/demand balance that exists.

Crude Oil and NGLs

(\$/bbl)	Three months ended June 30			Six months ended June 30		
	2006	2005	% change	2006	2005	% change
Realized crude oil prices						
Excluding hedging	\$ 71.14	\$ 58.46	22%	\$ 65.16	\$ 56.76	15%
Including hedging	\$ 71.14	\$ 58.07	23%	\$ 65.16	\$ 56.57	15%
Realized NGLs prices						
Excluding hedging	\$ 58.43	\$ 46.67	25%	\$ 55.67	\$ 44.97	24%
Realized crude oil and NGLs prices						
Excluding hedging	\$ 68.69	\$ 56.57	21%	\$ 63.44	\$ 54.79	16%
Including hedging	\$ 68.69	\$ 56.24	22%	\$ 63.44	\$ 54.63	16%
WTI (\$US/bbl)	\$ 70.75	\$ 53.13	33%	\$ 67.33	\$ 51.53	31%
\$US/\$Cdn exchange rate	\$ 0.90	\$ 0.80	13%	\$ 0.88	\$ 0.81	9%

Realized crude oil and NGLs prices, excluding hedging, increased 21% for the three months and 16% for the six months ended June 30, 2006, as compared to the same period of 2005. 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. Advantage’s realized crude oil price has not increased to the same extent that WTI increased as a result of the increased strength of the Canadian dollar and the widening of 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 whereby WTI has increased 33% for the three months and 31% for the six months ended June 30, 2006, compared to 2005. Many developments have resulted in the current price levels, including significant geopolitical and weather related issues. Concerns have also been raised regarding the lack of North American refining capacity and the continued strength of global demand. These key issues persist and will continue to impact overall commodity prices. With the current high price levels, it is notable that demand has remained considerably resilient and the economy does not appear to be adversely impacted. 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) increased world wide demand, particularly in China and India 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 cash distributions to holders of Advantage Trust Units. As current and future practice, Advantage has established a hedging strategy and may manage the risk associated with changes in commodity prices by entering into oil or natural gas price hedges. These commodity hedging activities could expose Advantage to losses or gains. 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. Advantage had no hedging contracts in place for the first six months of 2006.

Currently, the Fund has the following financial hedges in place:

Description of Hedge	Term	Volume	Average Price
Natural gas - AECO			
Fixed price	November 2006 to March 2007	3,791 mcf/d	Cdn\$10.02/mcf
Collar	November 2006 to March 2007	9,478 mcf/d	Floor Cdn\$8.18/mcf Ceiling Cdn\$11.24/mcf
Collar	November 2006 to March 2007	4,739 mcf/d	Floor Cdn\$8.44/mcf Ceiling Cdn\$12.40/mcf
Collar	November 2006 to March 2007	4,739 mcf/d	Floor Cdn\$8.18/mcf Ceiling Cdn\$11.66/mcf
Collar	November 2006 to March 2007	4,739 mcf/d	Floor Cdn\$8.44/mcf Ceiling Cdn\$12.29/mcf
Fixed price	November 2006 to March 2007	5,687 mcf/d	Cdn\$8.70/mcf
Collar	November 2006 to March 2007	5,687 mcf/d	Floor Cdn\$7.91/mcf Ceiling Cdn\$9.81/mcf
Collar	November 2006 to March 2007	9,478 mcf/d	Floor Cdn\$8.44/mcf Ceiling Cdn\$13.82/mcf
Crude oil - WTI			
Collar	October 2006 to March 2007	1,250 bbls/d	Floor US\$65.00/bbl Ceiling US\$87.40/bbl
Collar	January to December 2006	500 bbls/d	Floor US\$55.00/bbl Ceiling US\$76.50/bbl
Collar	October 2006 to September 2007	1,000 bbls/d	Floor US\$65.00/bbl Ceiling US\$90.00/bbl

Currently, the Fund has the following physical natural gas contracts in place:

Description of Contract	Term	Volume	Average Price	
Natural gas - AEEO				
Fixed price	April 2006 to October 2006	9,478 mcf/d		Cdn\$7.53/mcf
Collar	November 2006 to March 2007	4,739 mcf/d	Floor	Cdn\$8.07/mcf
			Ceiling	Cdn\$11.61/mcf
Collar	April 2007 to October 2007	4,739 mcf/d	Floor	Cdn\$7.12/mcf
			Ceiling	Cdn\$8.67/mcf
Collar	April 2007 to October 2007	4,739 mcf/d	Floor	Cdn\$6.86/mcf
			Ceiling	Cdn\$9.13/mcf
Collar	April 2007 to October 2007	9,478 mcf/d	Floor	Cdn\$7.39/mcf
			Ceiling	Cdn\$9.63/mcf

As at June 30, 2006 the settlement amount of the hedges outstanding was an asset of approximately \$723,000 and \$532,000 was recognized in income as an unrealized hedging gain. As a result of the Ketch merger, we assumed several of these hedges which had an estimated fair value of \$191,000 on closing. The Fund does not apply hedge accounting and current accounting standards requires changes in the mark-to-market valuation to be included in the income statement as an unrealized hedging gain or loss with a corresponding hedging asset or liability recorded on the balance sheet. The mark-to-market valuation is the estimated value to settle the financial contracts as at June 30, 2006 and is based on pricing models, estimates, assumptions and market data available at that time. The actual gain or loss realized on regular settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions. Currently, the Fund has hedged 45% of anticipated winter gas production at an average floor price of \$8.42/mcf.

Royalties

	Three months ended			Six months ended		
	June 30			June 30		
	2006	2005	% change	2006	2005	% change
Royalties, net of Alberta Royalty Credit (\$000)	\$ 13,822	\$ 16,289	(15)%	\$ 30,162	\$ 32,654	(8)%
per boe	\$ 8.30	\$ 8.94	(7)%	\$ 9.25	\$ 8.74	6%
As a percentage of revenue, excluding hedging	17.1%	18.6%	(1.5)%	18.0%	19.1%	(1.1)%

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 are shown net of Alberta Royalty Credit which is a royalty rebate provided by the Alberta government to certain producers. Royalties have decreased in total due to the decline in revenue but have changed on a boe basis due to the corresponding changes in commodity prices. Royalties as a percentage of revenue, excluding hedging, declined from the comparable periods. This is primarily due to the shift towards increased production from properties and areas that are comprised of lower royalty rates and several one time royalty credits and adjustments realized during the quarter.

Operating Costs

	Three months ended			Six months ended		
	June 30			June 30		
	2006	2005	% change	2006	2005	% change
Operating costs (\$000)	\$ 15,673	\$ 13,327	18%	\$ 30,739	\$ 26,357	17%
per boe	\$ 9.41	\$ 7.31	29%	\$ 9.43	\$ 7.05	34%

Operating costs increased 18% in total for the three months ended and 17% for the six months ended June 30, 2006 as compared to the same periods in 2005 and 29% per boe for the three months and 34% per boe for the six months ended June 30, 2006. The increases are primarily due to significantly higher power and field costs, higher costs associated with the shortage of supplies and services in the field that has resulted from the high level of industry activity and lower production volumes. Management of operating costs will be a persistent challenge as the commodity price environment places additional strain on current available support and service resources.

General and Administrative

	Three months ended			Six months ended		
	June 30			June 30		
	2006	2005	% change	2006	2005	% change
General and administrative expense (\$000)	\$ 2,420	\$ 1,567	54%	\$ 4,386	\$ 3,030	45%
per boe	\$ 1.45	\$ 0.86	69%	\$ 1.34	\$ 0.81	65%

General and administrative (“G&A”) expense has increased 54% for the three months and 45% for the six months ended June 30, 2006, as compared to 2005. G&A per boe for the three months increased 69% and 65% for the six months when compared to the same periods of 2005. G&A expense has increased overall and per boe due to an increase in staff levels that has resulted from growth of the Fund and costs associated with Advantage’s New York Stock Exchange listing that occurred at the end of 2005.

Management Fees, Performance Incentive, and Management Internalization

	Three months ended			Six months ended		
	June 30			June 30		
	2006	2005	% change	2006	2005	% change
Management fees (\$000)	\$ 55	\$ 868	(94)%	\$ 887	\$ 1,675	(47)%
per boe	\$ 0.03	\$ 0.48	(94)%	\$ 0.27	\$ 0.45	(40)%
Performance incentive (\$000)	\$ (300)	\$ -	-	\$ 2,380	\$ -	-
Management Internalization (\$000)	\$ 524	\$ -	-	\$ 524	\$ -	-

Prior to the Ketch merger, the Manager received both a management fee and a performance incentive fee as compensation pursuant to a Management Agreement approved by the Board of Directors. Management fees were calculated based on 1.5% of operating cash flow which was defined as revenues less royalties and operating costs.

The Manager of the Fund was entitled to earn an annual performance incentive fee when the Fund’s total annual return exceeded 8%. The total annual return was calculated at the end of the year by dividing the year-over-year change in Unit price plus cash distributions by the opening Unit price, as defined in the Management Agreement. Ten percent of the amount of the total annual return in excess of 8% was multiplied by the market capitalization (defined as the opening Unit price multiplied by the weighted average number of Trust Units outstanding during the year) to determine the performance fee. The Management Agreement provided an option to the Manager to receive the performance incentive fee in equivalent Trust Units. The Manager did not receive any form of compensation in respect of acquisition or divestiture activities nor were there any form of stock option or bonus plan for the Manager or the employees of Advantage outside of the management and performance fees. The management fees and performance fees were shared amongst all management and employees of the Fund.

As a condition of the merger with Ketch, the Fund and the Manager reached an agreement to internalize the 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 for total consideration of 1,933,208 Advantage Trust Units valued at \$39.1 million using the weighted average trading value for June 22, 2006 of \$20.23 per Advantage Trust Unit. The Trust Unit consideration 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 Fund paid final management fees and performance fees for the period January 1 to March 31, 2006 in the amount of \$3.3 million, representing \$0.9 million in management fees and \$2.4 million in performance fees. The performance fees were settled through the issuance of 117,662 Trust Units of the Fund. The Manager agreed to forego fees for the period April 1, 2006 to the closing of the Arrangement.

Interest

	Three months ended			Six months ended		
	June 30			June 30		
	2006	2005	% change	2006	2005	% change
Interest expense (\$000)	\$ 3,940	\$ 2,332	69%	\$ 7,133	\$ 4,941	44%
per boe	\$ 2.36	\$ 1.28	84%	\$ 2.19	\$ 1.32	66%
Average effective interest rate	4.9%	4.2%	0.7%	4.9%	4.4%	0.5%
Bank indebtedness at June 30 (\$000)				\$500,837	\$237,302	111%

Interest expense has increased 69% for the three months and 44% for the six months ended June 30, 2006, as compared to 2005. The increase in interest expense is primarily attributable to a higher average debt level associated with the growth of the Fund. The debt level also increased at June 30, 2006 due to the merger with Ketch and assumption of Ketch's additional bank indebtedness. The increased debt has been used in financing continued development activities and pursuit of expansion opportunities. We monitor the debt level to ensure an optimal mix of financing and cost of capital that will provide a maximum return to Unitholders. Our current credit facilities have been a favorable financing alternative with an effective interest rate of approximately 4.9% for the three and six months ended June 30, 2006. 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		
	2006	2005	% change	2006	2005	% change
Interest on convertible debentures (\$000)	\$ 2,268	\$ 2,815	(19)%	\$ 4,613	\$ 5,665	(19)%
per boe	\$ 1.36	\$ 1.55	(12)%	\$ 1.41	\$ 1.52	(7)%
Accretion on convertible debentures (\$000)	\$ 437	\$ 549	(20)%	\$ 898	\$ 1,100	(18)%
per boe	\$ 0.26	\$ 0.30	(13)%	\$ 0.28	\$ 0.29	(3)%
Convertible debentures maturity value at June 30 (\$000)				\$180,795	\$143,881	26%

Interest on convertible debentures has decreased 19% for the three and six months ended June 30, 2006 and accretion on convertible debentures has decreased 20% for the three months and 18% for the six months ended June 30, 2006 as compared to the same periods of 2005. The decreases have been due to the continual exchange of convertible debentures to Trust Units that will pay distributions rather than interest. The balance of convertible debentures outstanding has increased 26% due to Advantage assuming Ketch's 6.5% convertible debenture in the merger. Interest and accretion will increase immediately due to the additional debentures but will then continue to decrease in the future as additional debentures are converted to Trust Units.

Cash Netbacks

	Three months ended				Six months ended			
	June 30				June 30			
	2006		2005		2006		2005	
	\$000	\$ per boe	\$000	\$ per boe	\$000	\$ per boe	\$000	\$ per boe
Revenue	\$ 80,766	\$ 48.48	\$ 87,439	\$ 47.99	\$ 167,667	\$ 51.42	\$ 170,990	\$ 45.75
Hedging	-	-	37	0.02	-	-	(305)	(0.08)
Royalties	(13,822)	(8.30)	(16,289)	(8.94)	(30,162)	(9.25)	(32,654)	(8.74)
Operating costs	(15,673)	(9.41)	(13,327)	(7.31)	(30,739)	(9.43)	(26,357)	(7.05)
Operating	\$ 51,271	\$ 30.77	\$ 57,860	\$ 31.76	\$ 106,766	\$ 32.74	\$ 111,674	\$ 29.88
General and administrative	(2,420)	(1.45)	(1,567)	(0.86)	(4,386)	(1.34)	(3,030)	(0.81)
Management fees	(55)	(0.03)	(868)	(0.48)	(887)	(0.27)	(1,675)	(0.45)
Interest	(3,940)	(2.36)	(2,332)	(1.28)	(7,133)	(2.19)	(4,941)	(1.32)
Interest on convertible debentures	(2,268)	(1.36)	(2,815)	(1.55)	(4,613)	(1.41)	(5,665)	(1.52)
Taxes	(307)	(0.18)	(573)	(0.31)	(836)	(0.26)	(1,303)	(0.35)
Funds from operations	\$ 42,281	\$ 25.39	\$ 49,705	\$ 27.28	\$ 88,911	\$ 27.27	\$ 95,060	\$ 25.43

Funds from operations per boe has increased from \$25.43/boe in the prior year to \$27.27/boe for the six months ended June 30, 2006. The higher cash netback is primarily due to the increased revenues per boe from slightly stronger natural gas pricing and considerably higher crude oil prices than the six months ended June 30, 2005, partially offset by lower production and higher cash expenses. Royalties increased as a direct result of the higher commodity price environment, as would be expected. Advantage pays royalties to the owners of mineral rights from which we have leases and we anticipate the royalty rate as a percentage of revenues to remain relatively consistent with past experience. Operating costs per boe for the six months ended June 30, 2006 were \$9.43, an increase of 34% from the \$7.05 experienced in 2005. Operating costs have steadily increased over the past year due to significantly higher power and field costs associated with the shortage of supplies and services that has resulted from the high level of industry

activity. General and administrative expenses per boe for the first six months of 2006 have increased 65% over the prior year period and interest has increased 66% per boe, mainly due to the growth of the Fund.

Depletion, Depreciation and Accretion

	Three months ended			Six months ended		
	June 30			June 30		
	2006	2005	% change	2006	2005	% change
Depletion, depreciation & accretion (\$000)	\$ 33,164	\$ 33,499	(1)%	\$ 63,187	\$ 68,265	(7)%
per boe	\$ 19.91	\$ 18.39	8%	\$ 19.38	\$ 18.27	6%

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 decreased slightly by 1% for the three months and 7% for the six months ended June 30, 2006 primarily due to lower production. However, the DD&A per boe has increased for both the three and six months ended June 30, 2006 compared to prior years. As expected, the DD&A per boe has increased, as it is common for a company to incur considerable capital spending but not to realize the associated proved reserve additions until subsequent years when there has been adequate production history. This is a particular difficulty for any company that is an active developer, such as Advantage. Furthermore, due to the intense industry competition created by the continued high commodity price environment, there has been constant pressure placed on general capital spending. We further expect the DD&A per boe will increase due to the Ketch merger which is dependent on the associated fair value assigned and corresponding proved reserves.

Taxes

Current taxes paid or payable for the quarter ended June 30, 2006 amounted to \$0.3 million, compared to \$0.6 million expensed for the same period of 2005. For the six months ended June 30, 2006, current taxes paid or payable were \$0.8 million, compared to \$1.3 million for the comparative period. Current taxes primarily represent Federal large corporations tax and Saskatchewan resource surcharge. Federal large corporations tax was based on debt and equity levels of the Fund and has been eliminated effective January 1, 2006 due to government legislation. Saskatchewan resource surcharge is based on the level of activity within the province of Saskatchewan.

Future income taxes arise from differences between the accounting and tax bases of the operating company’s assets and liabilities. For the six months ended June 30, 2006, the Fund recognized an income tax reduction of \$17.4 million compared to a reduction of \$6.1 million for 2005. During the current quarter we realized a future tax recovery of approximately \$10.4 million due to reduced Federal and Alberta provincial tax rates.

Under the Fund’s current structure, payments are made between the operating company and the Fund transferring income tax obligations to the Unitholders. Therefore, it is expected, based on current legislation that no cash income taxes are to be paid by the operating company or the Fund in the future, and as such, the future income tax liability recorded on the balance sheet will be recovered through earnings over time. As at June 30, 2006, the operating company had a future income tax liability balance of \$192.1 million. 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. It further requires that a future tax liability be recorded on an acquisition when a corporation acquires assets with associated tax pools that are less than the purchase price. As a result of the Ketch merger, Advantage recorded a future tax liability of \$110.5 million.

Non-Controlling Interest

Non-controlling interest expense for the six months ended June 30, 2006 was \$29,000, a decrease of 79% from the \$135,000 recognized during the same period of 2005. Non-controlling interest expense represents the net income attributable to Exchangeable Share ownership interests. The non-controlling interest was created when Advantage Oil & Gas Ltd. (“AOG”), a subsidiary of the Fund, issued Exchangeable Shares as partial consideration for the acquisition of Defiant Energy Corporation that occurred at the end of 2004. The decrease in non-controlling interest expense is directly attributable to the continued conversion of Exchangeable Shares to Trust Units since the original issuance. On March 8, 2006, AOG elected to exercise its redemption right to redeem all of the Exchangeable Shares outstanding. The redemption price per Exchangeable Share was satisfied by delivering that number of Advantage Trust Units equal to the Exchange Ratio of 1.22138 in effect on May 9, 2006. As such, there is no non-controlling interest expense recorded in the second quarter and no exchangeable shares remain outstanding.

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)	Total	Payments due by period					2011 & thereafter
		2006	2007	2008	2009	2010	
Building leases	\$ 6.5	\$ 1.1	\$ 2.2	\$ 1.4	\$ 0.8	\$ 0.8	\$ 0.2
Capital leases	\$ 3.7	\$ 0.8	\$ 2.6	\$ 0.3	\$ -	\$ -	\$ -
Pipeline/transportation	\$ 6.5	\$ 2.2	\$ 3.3	\$ 0.9	\$ 0.1	\$ -	\$ -
Convertible debentures ⁽¹⁾	\$ 180.8	\$ -	\$ 1.5	\$ 5.4	\$ 57.1	\$ 70.0	\$ 46.8
Total contractual obligations	\$ 197.5	\$ 4.1	\$ 9.6	\$ 8.0	\$ 58.0	\$ 70.8	\$ 47.0

⁽¹⁾ As at June 30, 2006, Advantage had \$180.8 million convertible debentures outstanding. Each series of convertible debentures are convertible to Trust Units based on an established conversion price. The Fund expects that the obligations related to convertible debentures will be settled through the issuance of Trust Units.

Liquidity and Capital Resources

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

(\$000, except as otherwise indicated)	June 30, 2006
Bank indebtedness (long-term)	\$ 500,837
Working capital deficit ⁽¹⁾	13,774
Net debt	\$ 514,611
Trust Units outstanding (000)	94,689
Trust Unit closing market price (\$/Trust Unit)	\$ 19.49
Market value	\$ 1,845,489
Convertible debentures (maturity value)	\$ 180,795
Total capitalization	\$ 2,540,895

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

Unitholders' Equity, Exchangeable Shares and Convertible Debentures

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

As at June 30, 2006, the Fund had 94.7 million Trust Units outstanding. On January 20, 2006, Advantage issued 475,263 Trust Units to satisfy \$10.5 million of the performance incentive fee obligation related to the 2005 year. On June 23, 2006, Advantage issued 32,870,465 Trust Units as consideration for the acquisition of Ketch, 1,933,208 Trust Units as consideration for all of the outstanding shares of AIM to internalize the external management contract, and 117,662 Trust Units to satisfy the obligation related to the 2006 first quarter performance fee. On August 1, 2006 Advantage issued 7,500,000 Trust Units, plus an additional 1,125,000 Trust Units upon full exercise of the Underwriters' option on August 4, 2006, at \$17.30 per Trust Unit for net proceeds of \$141.4 million (net of Underwriters' fees and other issue costs of \$7.9 million). The net proceeds of the offering will be used to pay down bank indebtedness and to subsequently fund capital and general corporate expenditures. As at August 11, 2006, Advantage had 103.4 million Trust Units issued and outstanding.

Exchangeable Shares issued and outstanding were exchangeable for Advantage Trust Units at any time on the basis of the applicable exchange ratio in effect at that time. On March 8, 2006, AOG elected to exercise its redemption right to redeem all of the Exchangeable Shares outstanding. The redemption price per Exchangeable Share was satisfied by delivering that number of

Advantage Trust Units equal to the Exchange Ratio of 1.22138 in effect on May 9, 2006. During 2006, the Fund issued 127,014 Trust Units for the remaining Exchangeable Shares.

Effective June 25, 2002, a Trust Units Rights Incentive Plan for external directors of the Fund was established and approved by the Unitholders of Advantage. 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. All of the remaining 85,000 Series A Trust Units Rights were exercised after June 30, 2006 in exchange for an equivalent number of Trust Units.

As at June 30, 2006, the Fund had \$180.8 million convertible debentures outstanding that were convertible to 8.3 million Trust Units based on the applicable conversion prices. During the six months ended June 30, 2006, \$24.3 million convertible debentures were exchanged for the issuance of 1.3 million Trust Units. As at August 11, 2006, the convertible debentures outstanding has not changed.

On July 24, 2006, Advantage announced that it adopted a Premium Distribution^(TM), Distribution Reinvestment and Optional Trust Unit Purchase Plan (the "Plan"). Eligible Unitholders may elect to participate in the Plan commencing with the monthly cash distribution payable on August 15, 2006 to Unitholders of record on July 31, 2006. For Unitholders that elect to participate in the Plan, Advantage will settle the monthly distribution obligation through the issuance of additional Trust Units at 95% of the Average Market Price (as defined in the Plan). Unitholder enrollment in the Premium Distribution^(TM) component of the Plan effectively authorizes the subsequent disposal of the issued Trust Units in exchange for a cash payment equal to 102% of the cash distributions that the Unitholder would otherwise have received if they did not participate in the Plan.

Bank Indebtedness, Credit Facility and Other Obligations

At June 30, 2006, Advantage had bank indebtedness outstanding of \$500.8 million and includes approximately \$188 million related to the Ketch merger. The Fund has a credit facility agreement with a syndicate of Canadian chartered banks. The \$600 million facility consists of a \$580 million extendible revolving loan facility and a \$20 million operating loan facility. The current credit facilities are secured 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.

At June 30, 2006, Advantage had a working capital deficiency of \$13.8 million. The working capital deficit has decreased from year end, mainly due to the settlement in Trust Units of the \$10.5 million performance incentive fee for 2005. Our working capital includes items expected for normal operations such as trade receivables, prepaids, deposits, trade payables and accruals. Working capital varies primarily due to the timing of such items and the current level of business activity. 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 that is meant to assist with the timing of cash flows.

Advantage generally does not make use of capital leases to finance development expenditures. However, Advantage currently has two capital leases outstanding at June 30, 2006 for \$3.6 million that were both assumed from corporate acquisitions.

Capital Expenditures

(\$000)	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Land and seismic	\$ 1,050	\$ (168)	\$ 3,278	\$ 2,090
Drilling, completions and workovers	20,708	16,469	34,715	40,052
Well equipping and facilities	5,899	5,226	10,187	11,470
Other	125	295	591	925
	\$ 27,782	\$ 21,822	\$ 48,771	\$ 54,537
Purchase adjustment of Defiant acquisition	-	(132)	-	352
Property acquisitions	-	185	-	213
Property dispositions	-	(2,547)	-	(2,581)
Total capital expenditures	\$ 27,782	\$ 19,328	\$ 48,771	\$ 52,521

Advantage's growth strategy has been to acquire properties in areas where we have large land positions where the drilling opportunities are shallow to medium depth with year round access. We focus on areas where past activity has yielded long-life reserves with high cash netbacks. With the integration of the Ketch assets, Advantage is well positioned to be flexible and exploit the best drilling opportunities given the size, strength and diversity of our asset base. As a result, the Fund has shifted its remaining capital program to further oil development due to superior project economics. 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, 2006, the Fund spent \$27.8 million on capital expenditures. Approximately \$20.7 million was expended on drilling and completion operations where the Fund drilled a total of 26.4 net (34 gross) wells. During the quarter, six 70% working interest oil wells at Sunset, three 100% working interest wells at Nevis and ten 100% working interest gas wells at Medicine Hat were drilled. Over half of the capital spending for the quarter was incurred in the Sunset, Nevis and Medicine Hat areas. Late in the second quarter of 2006, Advantage commenced a 16 well drilling, completion and tie-in program in the Medicine Hat area that consists of 100% working interest gas wells.

The following table summarizes the various funding requirements during the six months ended June 30, 2006 and the sources of funding to meet those requirements.

Sources and Uses of Funds

(\$000)	Six months ended June 30, 2006
Sources of funds	
Funds from operations	\$ 88,911
Increase in bank indebtedness	59,496
Units issued, net of costs	473
Decrease in working capital	592
	\$ 149,472
Uses of funds	
Capital expenditures	\$ 48,771
Asset retirement expenditures	1,447
Distributions paid to Unitholders	88,747
Acquisition costs of Ketch Resources Trust	10,236
Reduction of capital lease obligations	271
	\$ 149,472

Quarterly Performance

(\$000, except as otherwise indicated)	2006			2005			2004	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Daily production								
Natural gas (mcf/d)	70,293	65,768	72,587	75,994	79,492	86,350	84,336	75,425
Crude oil and NGLs (bbls/d)	6,593	6,760	7,106	7,340	6,772	6,892	6,815	3,550
Total (boe/d)	18,309	17,721	19,204	20,006	20,021	21,284	20,871	16,121
Average prices								
Natural gas (\$/mcf)								
Excluding hedging	\$ 6.18	\$ 8.69	\$ 11.68	\$ 8.25	\$ 7.27	\$ 6.52	\$ 6.64	\$ 6.11
Including hedging	\$ 6.18	\$ 8.69	\$ 10.67	\$ 7.79	\$ 7.30	\$ 6.47	\$ 6.09	\$ 5.76
AECO monthly	\$ 6.28	\$ 9.31	\$ 11.68	\$ 8.15	\$ 7.38	\$ 6.70	\$ 7.09	\$ 6.62
Crude oil and NGLs (\$/bbl)								
Excluding hedging	\$ 68.69	\$ 58.26	\$ 60.14	\$ 66.00	\$ 56.57	\$ 53.02	\$ 47.05	\$ 51.20
Including hedging	\$ 68.69	\$ 58.26	\$ 59.53	\$ 61.10	\$ 56.24	\$ 53.02	\$ 47.05	\$ 51.20
WTI (US\$/bbl)	\$ 70.75	\$ 63.88	\$ 60.04	\$ 63.17	\$ 53.13	\$ 49.90	\$ 48.28	\$ 43.88
Total revenues (before royalties)	\$ 80,766	\$ 86,901	\$ 110,172	\$ 95,715	\$ 87,476	\$ 83,209	\$ 76,742	\$ 56,722
Net income	\$ 23,905	\$ 15,964	\$ 25,846	\$ 18,674	\$ 26,537	\$ 4,015	\$ 4,855	\$ 4,965
per Trust Unit - basic and diluted	\$ 0.38	\$ 0.27	\$ 0.45	\$ 0.33	\$ 0.46	\$ 0.07	\$ 0.11	\$ 0.12
Funds from operations	\$ 42,281	\$ 46,630	\$ 60,906	\$ 55,575	\$ 49,705	\$ 45,355	\$ 34,811	\$ 31,074
Cash distributions declared	\$ 53,498	\$ 44,459	\$ 43,265	\$ 43,069	\$ 44,693	\$ 46,339	\$ 35,208	\$ 28,730
Payout ratio (%)	127%	95%	71%	77%	90%	102%	101%	92%

The table above highlights the Fund's performance for the second quarter of 2006 and also for the preceding seven quarters. Advantage's revenues and funds from operations are lower as compared to the last several quarters primarily due to continued weakness of natural gas prices and generally lower production. This has been slightly offset by the persistent strength of crude oil prices. These factors have also impacted net income but have been more than offset by the recognition of a higher future income tax reduction this quarter due to reduced Federal and Alberta provincial tax rates. Production increased in the fourth quarter of 2004 due to the acquisition of assets from Anadarko Canada Corporation and the acquisition of Defiant Energy Corporation. Production continued to experience normal declines until a more significant decrease occurred in the first quarter of 2006 due to a one-time adjustment for periods prior to 2006 related to several payout wells, restricted production on wells in Chip Lake and Nevis, and some minor non-core property dispositions that occurred in 2005. Production increased in the second quarter of 2006 and includes eight days of production from the Ketch properties.

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 property and equipment, the provision for asset retirement costs and related accretion expense, and impairment calculations for property and equipment 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.

Financial Reporting Update - Financial Instruments Recognition and Measurement

In April 2005, a series of new accounting standards were released which established guidance for the recognition and measurement of financial instruments. These new standards includes Section 1530 “Comprehensive Income”, Section 3855 “Financial Instruments — Recognition and Measurement”, and Section 3865 “Hedges”. The new standards also resulted in a number of significant consequential amendments to other accounting standards to accommodate the new sections. The standards require all applicable financial instruments to be classified into one of several categories including: financial assets and financial liabilities held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. The financial instruments are then included on a company’s balance sheet and measured at fair value, cost or amortized value, depending on the classification. Subsequent measurement and recognition of changes in value of the financial instruments also depends on the initial classification. These standards are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2006 and must be implemented simultaneously. Advantage has not yet assessed the full impact, if any, of these standards on the consolidated financial statements. However, the Fund anticipates adoption of the new standards on January 1, 2007.

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 President and 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 operation, 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 second quarter of 2006, there were no significant changes that would materially affect, or is reasonably likely to materially affect, the internal controls over financial reporting.

Evaluation of Disclosure Controls and Procedures

Management of Advantage, including our Chief Executive Officer and Vice-President and Chief Financial Officer, has evaluated the effectiveness of the design of the disclosure controls and procedures as of June 30, 2006. Based on that evaluation, Management has concluded that the design of the disclosure controls and procedures is effective as of the end of the period, in all material respects. It should be noted that while the Chief Executive Officer and Chief Financial Officer believe that the Fund’s design of disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system does not provide absolute, but rather is designed to provide reasonable, assurance that the objective of the control system is met.

Business Process Project and Sarbanes-Oxley

In 2002, the United States Congress enacted the Sarbanes-Oxley Act (“SOX”) that applies to all companies registered with the Securities and Exchange Commission. Section 404 of the Act requires that Management identify, document, assess and remediate internal controls and issue an opinion on the effectiveness of internal controls surrounding the financial reporting processes. The current deadline for Advantage to comply with the internal controls assessment is December 31, 2006. The Fund established a business process project with a team leader in May 2005 to ensure full compliance with SOX by the given deadline. The business process project will also ensure full compliance with all similar Canadian regulations. A comprehensive project plan was established with full support of Management and the Board of Directors. Regular updates on status of the project and developments are provided to the Fund’s Audit Committee. The Fund is currently on schedule and no problems are anticipated in completing the project by the current deadline.

Outlook

Advantage’s funds from operations in 2006 will continue to be impacted by the volatility of crude oil and natural gas prices and the \$US/\$Cdn exchange rate. Advantage will continue to distribute a significant portion of its cash flow in 2006 with the distribution level set by the Board of Directors of AOG dependent on the level of commodity prices and success of the Fund’s drilling and development program and acquisition activities. Advantage will continue to follow its strategy of acquiring properties that provide low risk development opportunities and enhance long term cash flow. Advantage will also continue to focus on low cost 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. Drilling activities are planned in several project areas with the most significant being Nevis, Medicine Hat,

Sunset and Sweetgrass, all in Alberta and the Midale area in Saskatchewan. Recompletion activities are planned primarily at Medicine Hat, Alberta and on properties in Southeast Saskatchewan.

Advantage anticipates to be in the lower end of the guidance range of 30,500 to 32,000 boe/d due to higher declines at Hamelin Creek, wet weather drilling and completion delays during the last part of the second quarter and anticipated third party facility turnarounds in the third quarter. This will be partly offset by higher netbacks realized through an increased emphasis on light oil properties. The synergy of larger size and the complementary winter/summer drilling programs with the Ketch merger is showing benefits in terms of securing services, flexibility and quality of our capital program. Capital expenditures of the second half of 2006 are estimated to be approximately \$100 million.

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 11, 2006

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

(thousands of dollars)	June 30, 2006 (unaudited)	December 31, 2005
Assets		
Current assets		
Accounts receivable	\$ 83,132	\$ 51,788
Prepaid expenses and deposits	15,816	7,791
Hedging asset (note 9)	723	-
	99,671	59,579
Fixed assets		
Property and equipment	2,223,365	1,295,235
Accumulated depletion and depreciation	(449,909)	(387,440)
	1,773,456	907,795
Goodwill (note 1)	226,692	45,473
	\$ 2,099,819	\$ 1,012,847
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 86,373	\$ 76,371
Cash distributions payable to Unitholders	23,672	14,462
Current portion of capital lease obligations (note 2)	2,677	358
	112,722	91,191
Capital lease obligations (note 2)	903	1,346
Bank indebtedness (note 3)	500,837	252,476
Convertible debentures (note 4)	171,138	126,081
Asset retirement obligations (note 5)	30,360	21,263
Future income taxes	192,105	99,026
	1,008,065	591,383
Non-controlling Interest		
Exchangeable shares (note 6)	-	2,369
Unitholders' Equity		
Unitholders' capital (note 7)	1,410,610	681,574
Convertible debentures equity component (note 4)	8,043	6,159
Contributed surplus	863	1,036
Accumulated deficit (note 8)	(327,762)	(269,674)
	1,091,754	419,095
	\$ 2,099,819	\$ 1,012,847

Commitments (note 10)

Subsequent Events (note 11)

see accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Income and Accumulated Deficit

(thousands of dollars, except for per Trust Unit amounts) (unaudited)	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Revenue				
Petroleum and natural gas	\$ 80,766	\$ 87,476	\$ 167,667	\$ 170,685
Unrealized hedging gain (loss) (note 9)	532	9,957	532	(1,109)
Royalties, net of Alberta Royalty Credit	(13,822)	(16,289)	(30,162)	(32,654)
	67,476	81,144	138,037	136,922
Expenses				
Operating	15,673	13,327	30,739	26,357
General and administrative	2,420	1,567	4,386	3,030
Management fee (note 7)	55	868	887	1,675
Performance incentive (note 7)	(300)	-	2,380	-
Management internalization (note 7)	524	-	524	-
Interest	3,940	2,332	7,133	4,941
Interest and accretion on convertible debentures	2,705	3,364	5,511	6,765
Depletion, depreciation and accretion	33,164	33,499	63,187	68,265
	58,181	54,957	114,747	111,033
Income before taxes and non-controlling interest	9,295	26,187	23,290	25,889
Future income tax reduction	(14,917)	(1,000)	(17,444)	(6,101)
Income and capital taxes	307	573	836	1,303
	(14,610)	(427)	(16,608)	(4,798)
Net income before non-controlling interest	23,905	26,614	39,898	30,687
Non-controlling interest (note 6)	-	77	29	135
Net income	23,905	26,537	39,869	30,552
Accumulated deficit, beginning of period	(298,169)	(209,704)	(269,674)	(167,380)
Distributions	(53,498)	(44,693)	(97,957)	(91,032)
Accumulated deficit, end of period	\$(327,762)	\$(227,860)	\$(327,762)	\$(227,860)
Net income per Trust Unit (note 7)				
Basic	\$ 0.38	\$ 0.46	0.66	0.55
Diluted	\$ 0.38	\$ 0.46	0.65	0.55

see accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(thousands of dollars) (unaudited)	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Operating Activities				
Net income	\$ 23,905	\$ 26,537	\$ 39,869	\$ 30,552
Add (deduct) items not requiring cash:				
Unrealized hedging loss (gain)	(532)	(9,957)	(532)	1,109
Non-cash performance incentive	(300)	-	2,380	-
Management internalization	524	-	524	-
Accretion on convertible debentures	437	549	898	1,100
Depletion, depreciation and accretion	33,164	33,499	63,187	68,265
Future income taxes	(14,917)	(1,000)	(17,444)	(6,101)
Non-controlling interest	-	77	29	135
Expenditures on asset retirement	(414)	(330)	(1,447)	(737)
Changes in non-cash working capital	2,874	(17,006)	(2,843)	(23,346)
Cash provided by operating activities	44,741	32,369	84,621	70,977
Financing Activities				
Units issued, net of costs	473	(85)	473	107,616
Increase (decrease) in bank indebtedness	33,195	40,940	59,496	(29,752)
Reduction of capital lease obligations	(183)	(7,071)	(271)	(7,515)
Cash distributions to Unitholders	(44,693)	(46,382)	(88,747)	(89,116)
Cash used in financing activities	(11,208)	(12,598)	(29,049)	(18,767)
Investing Activities				
Expenditures on property and equipment	(27,782)	(21,822)	(48,771)	(54,537)
Property acquisitions	-	(185)	-	(213)
Property dispositions	-	2,547	-	2,581
Acquisition of Ketch Resources Trust (note 1)	(10,236)	-	(10,236)	-
Purchase adjustment of Defiant acquisition	-	132	-	(352)
Changes in non-cash working capital	4,485	(443)	3,435	311
Cash used in investing activities	(33,533)	(19,771)	(55,572)	(52,210)
Net change in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Supplementary Cash Flow Information				
Interest paid	\$ 9,049	\$ 5,472	\$ 15,692	\$ 11,557
Taxes paid	\$ 741	\$ 864	\$ 1,270	\$ 1,461

see accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006 (unaudited)

All tabular amounts in thousands except for Trust Units and per Trust Unit amounts

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, 2005. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Advantage for the year ended December 31, 2005 as set out in Advantage’s Annual Report.

1. Acquisition of Ketch Resources Trust

On June 23, 2006, Advantage acquired all of the issued and outstanding Units of Ketch Resources Trust (“Ketch”) in return for 32,870,465 Advantage Trust Units, utilizing an exchange ratio of 0.565 Advantage Trust Units for each Ketch Trust Unit outstanding. Ketch 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:		Consideration:	
Property and equipment	\$ 877,463	32,870,465 Trust Units issued	\$ 688,636
Goodwill	181,219	Acquisition costs incurred	<u>10,236</u>
Net working capital *	9,597		<u>\$ 698,872</u>
Bank indebtedness	(180,000)		
Future income taxes	(110,523)		
Convertible debentures	(66,981)		
Convertible debentures equity component	(2,971)		
Asset retirement obligations	(7,930)		
Capital lease obligation	<u>(1,002)</u>		
	<u>\$ 698,872</u>		

* Includes cash of \$2,713, accounts receivable of \$61,316, prepaid expenses of \$6,408, accounts payable of \$48,117, current bank indebtedness of \$11,578 and current portion of capital lease obligation \$1,145.

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 is subject to refinement as certain cost estimates are realized and the tax balances are finalized.

2. Capital Lease Obligations

The Fund has capital leases on a variety of property and equipment. Future minimum lease payments at June 30, 2006 consist of the following:

2006	\$ 837
2007	2,577
2008	307
	<u>3,721</u>
Less amounts representing interest	(141)
	<u>3,580</u>
Current portion	<u>(2,677)</u>
	<u>\$ 903</u>

On June 23, 2006, Advantage assumed a total capital lease obligation of \$2.1 million in the acquisition of Ketch (note 1).

3. Bank Indebtedness

Advantage has a credit facility agreement with a syndicate of Canadian chartered banks which provides for a \$580 million extendible revolving loan facility and a \$20 million operating loan facility. The loan’s interest rate is based on either prime or bankers’ acceptance rates, at the Fund’s option, subject to certain basis point or stamping fee adjustments ranging from 0.70% to 1.25% depending on the Fund’s debt to cash flow ratio. The credit facilities are secured 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. Various borrowing options are available under the credit facilities, including prime rate-based 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, and distributions by Advantage Oil & Gas Ltd. ("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, 2006, the effective interest rate on the outstanding amounts under the facility was approximately 4.9%.

4. Convertible Debentures

The convertible unsecured subordinated debentures pay interest semi-annually and are convertible at the option of the holder into Trust Units of Advantage at the applicable conversion price per Trust Unit plus accrued and unpaid interest. Advantage initially records the proceeds as a liability and equity component, net of issue costs, based on their relative fair market values. The details of the convertible debentures including fair market values initially assigned and issuance costs are as follows:

	10.00%	9.00%	8.25%	7.75%	7.50%	6.50%	Total
Issue date	Oct. 18, 2002	Jul. 8, 2003	Dec. 2, 2003	Sept. 15, 2004	Sept. 15, 2004	May 18, 2005	
Maturity date	Nov. 1, 2007	Aug. 1, 2008	Feb. 1, 2009	Dec. 1, 2011	Oct. 1, 2009	June 30, 2010	
Conversion price	\$ 13.30	\$ 17.00	\$ 16.50	\$ 21.00	\$ 20.25	\$ 24.96	
Liability component	\$ 52,722	\$ 28,662	\$ 56,802	\$ 47,444	\$ 71,631	\$ 66,981	\$ 324,242
Equity component	2,278	1,338	3,198	2,556	3,369	2,971	15,710
Gross proceeds	55,000	30,000	60,000	50,000	75,000	69,952	339,952
Issuance costs	(2,495)	(1,444)	(2,588)	(2,190)	(3,190)	-	(11,907)
Net proceeds	\$ 52,505	\$ 28,556	\$ 57,412	\$ 47,810	\$ 71,810	\$ 69,952	\$ 328,045

The convertible debentures are redeemable prior to their maturity dates, at the option of the Fund, upon providing 30 to 60 days advance notification. The redemption prices for the various debentures, plus accrued and unpaid interest, is dependent on the redemption periods and are as follows:

Convertible Debenture	Redemption Periods	Redemption Price
10.00%	After November 1, 2005 and on or before November 1, 2006	\$1,050
	After November 1, 2006 and before November 1, 2007	\$1,025
9.00%	After August 1, 2006 and on or before August 1, 2007	\$1,050
	After August 1, 2007 and before August 1, 2008	\$1,025
8.25%	After February 1, 2007 and on or before February 1, 2008	\$1,050
	After February 1, 2008 and before February 1, 2009	\$1,025
7.75%	After December 1, 2007 and on or before December 1, 2008	\$1,050
	After December 1, 2008 and on or before December 1, 2009	\$1,025
	After December 1, 2009 and before December 1, 2011	\$1,000
7.50%	After October 1, 2007 and on or before October 1, 2008	\$1,050
	After October 1, 2008 and before October 1, 2009	\$1,025
6.50%	After June 30, 2008 and on or before June 30, 2009	\$1,050
	After June 30, 2009 and before June 30, 2010	\$1,025

The balance of debentures outstanding at June 30, 2006 and changes in the liability and equity components during the six months ended June 30, 2006 are as follows:

	10.00%	9.00%	8.25%	7.75%	7.50%	6.50%	Total
Debentures outstanding	\$ 1,550	\$ 5,392	\$ 4,867	\$ 46,766	\$ 52,268	\$ 69,952	\$ 180,795
Liability component:							
Balance at Dec. 31, 2005	\$ 2,453	\$ 7,259	\$ 8,150	\$ 45,898	\$ 62,321	\$ -	\$ 126,081
Assumed on Ketch acquisition	-	-	-	-	-	66,981	66,981
Accretion of discount	17	58	59	293	457	14	898
Converted to Trust Units	(956)	(2,132)	(3,577)	(2,720)	(13,437)	-	(22,822)
Balance at June 30, 2006	\$ 1,514	\$ 5,185	\$ 4,632	\$ 43,471	\$ 49,341	\$ 66,995	\$ 171,138
Equity component:							
Balance at Dec. 31, 2005	\$ 100	\$ 323	\$ 441	\$ 2,430	\$ 2,865	\$ -	\$ 6,159
Assumed on Ketch acquisition	-	-	-	-	-	2,971	2,971
Converted to Trust Units	(39)	(94)	(193)	(144)	(617)	-	(1,087)
Balance at June 30, 2006	\$ 61	\$ 229	\$ 248	\$ 2,286	\$ 2,248	\$ 2,971	\$ 8,043

As part of the acquisition of Ketch, 6.50% convertible debentures originally issued May 18, 2005 were assumed by Advantage on June 23, 2006.

During the six months ended June 30, 2006, \$24,268,000 debentures were converted resulting in the issuance of 1,282,015 Trust Units.

5. Asset Retirement Obligations

The Fund's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Fund estimates the total undiscounted and inflated amount of cash flows required to settle its asset retirement obligations is approximately \$126 million which will be incurred between 2006 to 2056. A credit-adjusted risk-free rate of 7% was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	June 30, 2006	December 31, 2005
Balance, beginning of period	\$ 21,263	\$ 17,503
Accretion expense	718	1,162
Assumed in Ketch acquisition (note 1)	7,930	-
Liabilities incurred	1,896	4,623
Liabilities settled	(1,447)	(2,025)
Balance, end of period	\$ 30,360	\$ 21,263

6. Exchangeable Shares

	Number of Shares	Amount
Balance at December 31, 2005	104,672	\$ 2,369
Converted to Trust Units	(104,672)	(2,398)
Non-controlling interest in net income	-	29
Balance at June 30, 2006	-	\$ -
Trust Units issuable	-	-

AOG is authorized to issue an unlimited number of non-voting Exchangeable Shares. Each Exchangeable Share previously issued by AOG was exchangeable for Advantage Trust Units at any time (subject to the provisions of the Voting and Exchange Trust Agreement), on the basis of the applicable exchange ratio in effect at that time. Dividends were not declared or paid on the Exchangeable Shares and the Exchangeable Shares were not publicly traded.

On March 8, 2006 AOG elected to exercise its redemption right to redeem all of the Exchangeable Shares outstanding. The redemption price per Exchangeable Share was satisfied by delivering that number of Advantage Trust Units equal to the Exchange Ratio of 1.22138 in effect on May 9, 2006.

7. Unitholders' Equity

(a) Unitholders' Capital

(i) Authorized

Unlimited number of voting Trust Units

(ii) Issued

	Number of Units	Amount
Balance at December 31, 2005	57,846,324	\$ 681,574
2005 non-cash performance incentive	475,263	10,544
Issued on conversion of debentures	1,282,015	23,909
Issued on conversion of exchangeable shares	127,014	2,398
Issued on exercise of Unit rights	37,500	645
Ketch acquisition (note 1)	32,870,465	688,636
Management internalization	1,933,208	39,109
2006 non-cash performance incentive	117,662	2,380
	94,689,451	\$ 1,449,195
Management internalization escrowed Trust Units		(38,585)
Balance at June 30, 2006		\$ 1,410,610

On January 20, 2006, Advantage issued 475,263 Trust Units to satisfy the obligation related to the 2005 year end performance fee.

On June 23, 2006, Advantage issued 32,870,465 Trust Units as consideration for the acquisition of Ketch (note 1). Concurrent with the Ketch acquisition, Advantage internalized the external management contract structure and eliminated all related fees. The Fund reached an agreement with Advantage Investment Management Ltd. ("AIM") to purchase all of the outstanding shares of AIM pursuant to the terms of the Plan of Arrangement for total consideration of 1,933,208 Advantage Trust Units. The Trust Units were valued at \$39.1 million using the weighted average trading value for Advantage Trust Units on the Unitholder approval date of June 22, 2006. The Trust Unit consideration is subject to escrow provisions over a 3-year period, vesting one-third each year beginning in 2007, and is being deferred and amortized into income as management internalization expense over the specific vesting periods during which employee services are provided. The reversal of amortization related to forfeited Trust Units is recognized when incurred. The Fund issued 117,662 Trust Units to satisfy the obligation related to the 2006 first quarter performance fee along with \$0.9 million in cash to settle the first quarter management fee. AIM agreed to forego fees from the period April 1, 2006 to the closing of the Arrangement.

(b) Trust Units Rights Incentive Plan

	Series A		Series B	
	Number	Price	Number	Price
Balance at December 31, 2005	85,000	\$ 1.93	225,000	\$ 13.63
Exercised	-	-	(37,500)	-
Reduction of exercise price	-	(1.50)	-	(1.50)
Balance at June 30, 2006	85,000	\$ 0.43	187,500	\$ 12.13
Expiration date	August 16, 2006		June 17, 2008	

The Series A Trust Unit rights were issued in 2002 and the Fund was unable to determine the fair value for the rights granted under the Plan at that time. Several essential factors required to value such rights include expected future exercise price, distributions, exercise timeframe, volatility and risk-free interest rates. In determining these assumptions, both historical data and

future expectations are considered. However, when the Series A Trust Unit rights were originally granted, Advantage had only been established during the prior year and there was little historical information available that may suggest future expectations concerning such assumptions. Therefore, it was concluded that a fair value determination at that time was not possible. The Fund has disclosed pro forma results as if the Fund followed the intrinsic value methodology in accounting for such rights. The intrinsic value methodology would result in recording compensation expense for the rights based on the underlying Trust Unit price at the date of exercise or at the date of the financial statements for unexercised rights as compared to the exercise price.

Pro Forma Results	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Net income, as reported	\$ 23,905	\$ 26,537	\$ 39,869	\$ 30,552
Less compensation expense (recovery) for rights issued in 2002	(174)	(145)	(122)	(292)
Pro forma net income	\$ 24,079	\$ 26,682	\$ 39,991	\$ 30,844
Net income per Trust Unit, as reported				
Basic	\$ 0.38	\$ 0.46	\$ 0.66	\$ 0.55
Diluted	\$ 0.38	\$ 0.46	\$ 0.65	\$ 0.55
Net income per Trust Unit, pro forma				
Basic	\$ 0.39	\$ 0.46	\$ 0.66	\$ 0.55
Diluted	\$ 0.39	\$ 0.46	\$ 0.66	\$ 0.55

(c) Net Income per Trust Unit

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

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Income available to Unitholders				
Basic	\$23,905	\$ 26,537	\$ 39,869	\$ 30,552
Trust Units Rights Incentive Plan – Series A	-	-	-	-
Trust Units Rights Incentive Plan – Series B	-	-	-	-
Exchangeable Shares	-	-	29	135
Diluted	\$ 23,905	\$ 26,537	\$ 39,898	\$ 30,687
Weighted average Trust Units outstanding				
Basic	62,710,027	57,273,983	60,802,526	55,741,099
Trust Units Rights Incentive Plan – Series A	83,254	67,810	83,339	67,810
Trust Units Rights Incentive Plan – Series B	84,205	24,278	95,366	24,278
Exchangeable Shares	41,693	-	73,500	475,727
Diluted	62,919,179	57,366,071	61,054,731	56,308,914

The calculation of diluted net income per Trust Unit excludes all series of convertible debentures as the impact would be anti-dilutive. Exchangeable Shares have been excluded for the three months ended June 30, 2005 as the impact would have been 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, 2006 were 5,856,596 and 6,009,316, respectively (three and six months ended June 30, 2005 were 7,334,376 and 7,418,733, respectively). As at June 30, 2006, the total

convertible debentures outstanding were immediately convertible to 8,339,339 Trust Units (June 30, 2005 -7,318,004). There were no Exchangeable Shares outstanding at June 30, 2006.

8. Accumulated Deficit

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

	June 30, 2006	December 31, 2005
Accumulated Income	\$ 217,578	\$ 177,709
Accumulated Distributions	(545,340)	(447,383)
Accumulated Deficit	\$ (327,762)	\$ (269,674)

9. Financial Instruments

As at June 30, 2006 the Fund had the following financial hedges in place:

Description of Hedge	Term	Volume	Average Price
Natural gas - AECO			
Fixed price	November 2006 to March 2007	3,791 mcf/d	Cdn\$10.02/mcf
Collar	November 2006 to March 2007	9,478 mcf/d	Floor Cdn\$8.18/mcf Ceiling Cdn\$11.24/mcf
Collar	November 2006 to March 2007	4,739 mcf/d	Floor Cdn\$8.44/mcf Ceiling Cdn\$12.40/mcf
Collar	November 2006 to March 2007	4,739 mcf/d	Floor Cdn\$8.18/mcf Ceiling Cdn\$11.66/mcf
Collar	November 2006 to March 2007	4,739 mcf/d	Floor Cdn\$8.44/mcf Ceiling Cdn\$12.29/mcf
Crude oil - WTI			
Collar	October 2006 to March 2007	1,250 bbls/d	Floor US\$65.00/bbl Ceiling US\$87.40/bbl
Collar	January to December 2006	500 bbls/d	Floor US\$55.00/bbl Ceiling US\$76.50/bbl

As at June 30, 2006 the settlement amount of the hedges outstanding was an asset of approximately \$723,000 and \$532,000 was recognized in income as an unrealized hedging gain. As a result of the Ketch merger, the Fund assumed several of the hedges which had an estimated fair market value of \$191,000 on closing.

10. Lease Commitments

Advantage has lease commitments relating to office buildings. The estimated annual minimum operating lease rental payments for the buildings, after deducting sublease income, are as follows:

2006	\$ 1,106
2007	2,194
2008	1,369
2009	797
2010	797
2011	199
	\$ 6,462

11. Subsequent Events

(a) Trust Unit Offering

On August 1, 2006 Advantage issued 7,500,000 Trust Units, plus an additional 1,125,000 Trust Units upon full exercise of the Underwriters' option on August 4, 2006, at \$17.30 per Trust Unit for net proceeds of \$141.4 million (net of Underwriters' fees and other issue costs of \$7.9 million). The net proceeds of the offering will be used to pay down bank indebtedness and to subsequently fund capital and general corporate expenditures.

(b) Distribution Reinvestment Program

On July 24, 2006, Advantage announced that it adopted a Premium Distribution(TM), Distribution Reinvestment and Optional Trust Unit Purchase Plan (the "Plan"). Eligible Unitholders may elect to participate in the Plan commencing with the monthly cash distribution payable on August 15, 2006 to Unitholders of record on July 31, 2006. For Unitholders that elect to participate in the Plan, Advantage will settle the monthly distribution obligation through the issuance of additional Trust Units at 95% of the Average Market Price (as defined in the Plan). Unitholder enrollment in the Premium Distribution(TM) component of the Plan effectively authorizes the subsequent disposal of the issued Trust Units in exchange for a cash payment equal to 102% of the cash distributions that the Unitholder would otherwise have received if they did not participate in the Plan.

Directors

Gary F. Bourgeois
Kelly I. Drader
Grant B. Fagerheim ⁽¹⁾⁽³⁾
John A. Howard ⁽²⁾
Andy J. Mah
Ronald A. McIntosh ⁽¹⁾⁽²⁾⁽³⁾
Roderick M. Myers ⁽²⁾⁽³⁾
Carol D. Pennycook ⁽³⁾
Steven Sharpe ⁽¹⁾⁽³⁾
Rodger A. Tourigny ⁽¹⁾

⁽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

KPMG 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
Soci t  G n rale, Canada Branch
Alberta Treasury Branches

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
bcf - billion cubic feet
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

Corporate Offices

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

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

Transfer Agent

Computershare Trust Company of Canada

Contact Us

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

Toronto Stock Exchange Trading Symbols

Trust Units: AVN.UN
10% Convertible Debentures: AVN.DB
9% Convertible Debentures: AVN.DBA
8.25% Convertible Debentures: AVN.DBB
7.5% Convertible Debentures: AVN.DBC
7.75% Convertible Debentures: AVN.DBD
6.50% Convertible Debentures: AVN.DBE

New York Stock Exchange Trading Symbol

Trust Units: AAV