

**Advantage Energy Income Fund – News Release****November 12, 2007****Advantage Announces 3rd Quarter Results,  
Conference Call & Webcast on November 13, 2007**

Advantage Energy Income Fund (TSX: AVN.UN) (“Advantage” or the “Fund”) is pleased to announce its unaudited operating and financial results for the third quarter ended September 30, 2007.

A conference call will be held on Tuesday, November 13, 2007 at 9:00 a.m. MST (11:00 a.m. EST). The conference call can be accessed toll-free at **1-866-334-4934**. A replay of the call will be available from approximately 2:00 p.m. EST on November 13, 2007 until approximately midnight, November 28, 2007 and can be accessed by dialing toll free **1-866-245-6755**. The passcode required for playback is **271037**. A live web cast of the conference call will be accessible via the Internet on Advantage's website at [www.advantageincome.com](http://www.advantageincome.com).

**Financial and Operating Highlights**

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
<b>Financial (\$000)</b>				
Revenue before royalties <sup>(1)</sup>	\$ 130,830	\$ 124,521	\$ 391,407	\$ 292,188
per Trust Unit <sup>(2)</sup>	\$ 1.09	\$ 1.26	\$ 3.43	\$ 3.97
per boe	\$ 48.46	\$ 45.57	\$ 50.32	\$ 48.75
Funds from operations	\$ 62,345	\$ 63,110	\$ 190,624	\$ 152,021
per Trust Unit <sup>(3)</sup>	\$ 0.51	\$ 0.63	\$ 1.64	\$ 2.04
per boe	\$ 23.10	\$ 23.10	\$ 24.52	\$ 25.37
Net income (loss)	\$ (26,202)	\$ 1,209	\$ (21,330)	\$ 41,078
per Trust Unit <sup>(2)</sup>	\$ (0.22)	\$ 0.01	\$ (0.19)	\$ 0.56
Distributions declared	\$ 55,017	\$ 60,498	\$ 157,319	\$ 158,455
per Trust Unit <sup>(3)</sup>	\$ 0.45	\$ 0.60	\$ 1.35	\$ 2.10
Expenditures on property and equipment	\$ 32,418	\$ 49,607	\$ 107,792	\$ 98,378
Working capital deficit <sup>(4)</sup>	\$ 24,666	\$ 33,340	\$ 24,666	\$ 33,340
Bank indebtedness	\$ 521,144	\$ 372,514	\$ 521,144	\$ 372,514
Convertible debentures (face value)	\$ 281,273	\$ 180,730	\$ 281,273	\$ 180,730
<b>Operating</b>				
Daily Production				
Natural gas (mcf/d)	115,991	122,227	113,104	86,303
Crude oil and NGLs (bbls/d)	10,014	9,330	9,641	7,571
Total boe/d @ 6:1	29,346	29,701	28,492	21,955
Average prices (including hedging)				
Natural gas (\$/mcf)	\$ 6.35	\$ 5.90	\$ 7.30	\$ 6.68
Crude oil and NGLs (\$/bbl)	\$ 68.51	\$ 67.77	\$ 63.11	\$ 65.24
<b>Supplemental (000)</b>				
Trust Units outstanding at end of period	133,847	104,055	133,847	104,055
Trust Units issuable				
Convertible Debentures	12,069	8,334	12,069	8,334
Trust Units Rights Incentive Plan	150	188	150	188
Trust Units outstanding and issuable at end of period	146,066	112,577	146,066	112,577
Basic weighted average Trust Units	120,080	98,781	114,132	73,544

<sup>(1)</sup> includes realized hedging gains and losses

<sup>(2)</sup> based on basic weighted average Trust Units outstanding

<sup>(3)</sup> based on Trust Units outstanding at each distribution record date

<sup>(4)</sup> working capital deficit excludes derivative assets and liabilities

## MESSAGE TO UNITHOLDERS

### Highlights for the third quarter 2007 include:

- On September 5, 2007, the acquisition of Sound Energy Trust successfully closed. Results of operations from Sound have been included with Advantage's results from September 5, 2007. This highly accretive and synergistic transaction provides stable production, a large suite of under-capitalized assets and more oil opportunities. Our drilling inventory has increased to well over five years (750 locations) and tax pools increased to \$1.6 billion.
- Production volumes were on track with expectations for the third quarter of 2007. Volumes increased 8% to 29,346 boe/d compared to the second quarter of 2007 mainly due to the inclusion of 26 days of Sound Energy Trust volumes in the third quarter. New wells were also tied-in during the latter part of the quarter that resulted from our highly successful drilling program which had a 100% success rate in the third quarter. Negative impacts on production in the third quarter resulted from significant third party facility maintenance outages and wet weather during the early part of the quarter which delayed the tie-in and drilling of new oil and gas wells. In addition, approximately 400 boe/d of natural gas production was temporarily curtailed at Glacier due to third party facility constraints. This production is anticipated to return in the latter part of the fourth quarter.
- Natural gas production for the third quarter of 2007 increased 6% to 116.0 mmcf/d compared to 109.0 mmcf/d reported in the second quarter of 2007. Crude oil and natural gas liquids production increased 12% to 10,014 bbls/d compared to 8,952 bbls/d in the second quarter of 2007.
- Distributions declared as a percent of funds from operations increased slightly to 88% for the third quarter compared to 83% for the second quarter of 2007 despite a 25% decrease in natural gas prices. Reduced natural gas prices from the previous quarter were partially offset by hedging gains and the inclusion of 26 days of accretive cash flow from the Sound properties in the third quarter. Distributions declared as a percent of funds from operations is 83% for the nine months ended September 30, 2007, which is on-track with expectations.
- The Fund declared three distributions during the quarter totaling \$0.45 per Trust Unit. Since inception, the Fund has distributed \$821.9 million or \$15.84 per Trust Unit.
- Funds from operations for the third quarter of 2007 was \$62.3 million or \$0.51 per Trust Unit compared to \$62.6 million or \$0.54 per Trust Unit for the second quarter of 2007. The lower funds from operations per unit is due to the issuance of additional Trust Units related to the Sound acquisition with only 26 days of realized revenue in the quarter and weaker natural gas prices.
- Capital spending during Q3 2007 was a net \$32.4 million. During the quarter a total of 18.3 net (31 gross) wells were drilled at a 100% success rate.
- Per unit operating costs in Q3 2007 have increased by 4% to \$11.40/boe when compared to Q2 2007. Q3 costs were higher due to the higher operating cost structure of the Sound assets acquired. Total operating costs have increased by 14% from Q2 2007 and 28% from Q3 of 2006 which reflects higher industry costs as well as higher operating costs associated with the Sound assets.

### Alberta Royalty Program Changes

- On October 25, 2007, the Alberta Provincial Government announced changes to royalties for conventional oil, natural gas and oil sands that will become effective January 1, 2009. Preliminary indications are that the changes will have a negligible impact on Advantage since we have a significant number of lower rate wells within our long life properties that are producing in Alberta. As a result of our diverse asset base, we also have a significant Horseshoe Canyon coal bed methane drilling inventory that can be pursued which will also have a favorable royalty treatment due to lower rate per well characteristics of that play. Our exposure in Northeast British Columbia and Saskatchewan also affords us further flexibility with mitigating the royalty impact in our capital program.

## Hedging Position

- Advantage has layered in several hedges on both natural gas and oil which provides floor protection through summer 2007 and winter 2007/2008 for natural gas.
- Given current weakness in natural gas prices, Advantage is well positioned through to March 2008. For the fourth quarter of 2007, the Fund currently has approximately 42% of our net natural gas production hedged at an average floor price of \$8.09/mcf and an average ceiling of \$9.42/mcf. For the first quarter of 2008, Advantage has 22% of our net natural gas production hedged at a floor price of \$8.85/mcf and a ceiling of \$10.19/mcf.
- Advantage has been opportunistic with respect to hedging and will continue to monitor the forward prices to protect cash flow. We anticipate hedging approximately 50% of our production in 2008.

## Looking Forward

- We are reiterating our guidance for a 2007 exit production rate of approximately 35,000 boe/d for 2007. On an annual basis, we expect to average approximately 30,000 boe/d for 2007.
- Operating costs are expected to be approximately \$12.50 to \$13.50 on a per boe basis for the fourth quarter of 2007 with the inclusion of the Sound assets. Sound's assets have higher operating costs but have a greater exposure to oil which provides improved netbacks given the current crude oil pricing environment. Advantage will continue to aggressively pursue optimization initiatives to reduce costs. Industry service and supply costs may subside in the future as significant reductions in drilling activity could lead to a more competitive market.
- Royalty rates are expected to remain in the 19% to 20% range for 2007.
- We are directing approximately 80% of our capital spending toward more oil projects for the remainder of the 2007 year due to continued higher crude oil pricing. Total exploration and development capital for 2007 is expected to approximate \$150 million. Advantage's highly attractive and large drilling inventory allows flexibility in our capital allocation and an ability to high grade our projects.
- Advantage has exceptional tax pool coverage which will help reduce the amount of tax leakage to Unitholders for several years after 2011. Including the acquisition of Sound, the Fund has approximately \$1.6 billion in tax pools which was one of the highest in the sector as a multiple of estimated annual cash flow.
- Advantage is well positioned for upside opportunities in this 'buyer's market' with an estimated safe harbour of \$2 billion.

## MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of November 12, 2007, provides a detailed explanation of the financial and operating results of Advantage Energy Income Fund ("Advantage", the "Fund", "us", "we" or "our") for the three and nine months ended September 30, 2007 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, 2006. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and all references are to Canadian dollars unless otherwise indicated. All per barrel of oil equivalent ("boe") amounts are stated at a conversion rate of six thousand cubic feet of natural gas being equal to one barrel of oil or liquids.

### Non-GAAP Measures

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

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

	Three months ended September 30			Nine months ended September 30		
	2007	2006	% change	2007	2006	% change
Cash provided by operating activities	\$ 65,314	\$ 78,971	(17)%	\$ 165,766	\$ 163,592	1%
Expenditures on asset retirement	1,128	1,065	6%	4,835	2,512	92%
Changes in non-cash working capital	(4,097)	(16,926)	(76)%	20,023	(14,083)	(242)%
<b>Funds from operations</b>	<b>\$ 62,345</b>	<b>\$ 63,110</b>	<b>(1)%</b>	<b>\$ 190,624</b>	<b>\$ 152,021</b>	<b>25%</b>

### 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; obtaining required approvals of regulatory authorities and other risk factors set forth in Advantage's Annual Information Form which is available at [www.advantageincome.com](http://www.advantageincome.com) or [www.sedar.com](http://www.sedar.com). 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.

## Acquisition of Sound Energy Trust

On September 5, 2007, the previously announced acquisition of Sound Energy Trust (“Sound”) was completed. The financial and operational information for the three and nine months ended September 30, 2007 reflects operations from the Sound properties effective from the closing date, September 5, 2007.

The acquisition was accomplished through a Plan of Arrangement (the “Arrangement”) by the exchange of each Sound Trust Unit for 0.30 of an Advantage Trust Unit or, at the election of the holder of Sound Trust Units, \$0.66 in cash and 0.2557 of an Advantage Trust Unit. In addition, all Sound Exchangeable Shares were exchanged for Advantage Trust Units on the same ratio based on the conversion ratio in effect at the effective date of the Arrangement. Advantage issued 16,977,184 Trust Units and paid \$21.4 million cash consideration to acquire Sound. The transaction is accretive to Advantage’s Unitholders on a production, cash flow, reserves and net asset value basis and will significantly increase Advantage’s tax pool position to a total of approximately \$1.6 billion, and Safe Harbour expansion room is anticipated to be approximately \$2.0 billion. Sound’s higher oil weighting, synergy with many of Advantage’s core properties and significant undeveloped land holdings of approximately 400,000 net undeveloped acres will further enhance the operating platform of Advantage. The combined trust has an estimated enterprise value of \$2.3 billion.

## Overview

	Three months ended September 30			Nine months ended September 30		
	2007	2006	% change	2007	2006	% change
	Cash provided by operating activities (\$000)	\$ 65,314	\$ 78,971	(17)%	\$ 165,766	\$ 163,592
Funds from operations (\$000)	\$ 62,345	\$ 63,110	(1)%	\$ 190,624	\$ 152,021	25%
per Trust Unit <sup>(1)</sup>	\$ 0.51	\$ 0.63	(19)%	\$ 1.64	\$ 2.04	(20)%
Net income (loss) (\$000)	\$ (26,202)	\$ 1,209	(2,267)%	\$ (21,330)	\$ 41,078	(152)%
per Trust Unit - Basic	\$ (0.22)	\$ 0.01	(2,300)%	\$ (0.19)	\$ 0.56	(134)%
- Diluted	\$ (0.22)	\$ 0.01	(2,300)%	\$ (0.19)	\$ 0.56	(134)%

<sup>(1)</sup> Based on Trust Units outstanding at each distribution record date.

Cash provided by operating activities decreased 17%, funds from operations decreased 1%, and funds from operations per Trust Unit decreased 19% for the three months ended September 30, 2007, as compared to the same period of 2006. For the nine months ended September 30, 2007, cash provided by operating activities increased 1%, funds from operations increased 25%, and funds from operations per Trust Unit decreased 20%. Cash provided by operating activities and funds from operations for the quarter has been primarily negatively impacted by lower natural gas prices and higher operating costs. However, cash provided by operating activities and funds from operations for the nine months has significantly benefited from the increased production, particularly due to the Ketch acquisition in the second quarter of 2006. Funds from operations per Trust Unit has been impacted during the periods due to lower funds from operations relative to a higher average number of Trust Units outstanding. The weighted average number of Trust Units has increased 22% and 55% for the three and nine months ended in 2007 compared to 2006, mainly due to the Sound acquisition in 2007, the Ketch acquisition, the Fund’s Trust Unit financing in the first quarter of 2007 and the distribution reinvestment plan. When compared to the second quarter of 2007, funds from operations was comparable as production increased 8%, mainly due to the acquisition of Sound, and was offset by decreased realized natural gas prices before hedging of 25%. Reduced natural gas prices were partially mitigated by increased realized crude oil and NGL prices before hedging of 12% and an increase in realized hedging gains of \$7.3 million.

Net income decreased to a net loss for both the three and nine months ended September 30, 2007, compared to 2006. The lower net income has been primarily due to additional future income tax expense related to the new tax legislation concerning income trusts, higher operating costs, as well as amortization of the management contract internalization and higher depletion and depreciation expense. The primary factor that causes significant variability of Advantage’s cash provided by operating activities, funds from operations, and net income is commodity prices. Refer to the section “Commodity Prices and Marketing” for a more detailed discussion of commodity prices and our price risk management.

## Distributions

	Three months ended September 30			Nine months ended September 30		
	2007	2006	% change	2007	2006	% change
Distributions declared (\$000)	\$ 55,017	\$ 60,498	(9)%	\$ 157,319	\$ 158,455	(1)%
per Trust Unit <sup>(1)</sup>	\$ 0.45	\$ 0.60	(25)%	\$ 1.35	\$ 2.10	(36)%

<sup>(1)</sup> Based on Trust Units outstanding at each distribution record date.

Total distributions declared decreased 9% for the three months and 1% for the nine months ended September 30, 2007 when compared to the same periods in 2006. Total distributions declared are slightly lower as a result of the decrease in the distribution per Trust Unit in January 2007, being offset by the increased Trust Units outstanding from the continued growth and development of the Fund. Since natural gas prices had been very weak during the 2006/2007 winter season, we reduced the distribution level to more appropriately reflect the commodity price environment. Distributions per Trust Unit were \$0.45 for the three months and \$1.35 for the nine months ended September 30, 2007, representing a decrease of 25% and 36% from same periods in 2006. The monthly distribution is currently \$0.15 per Trust Unit. To mitigate the persisting risk associated with lower natural gas prices and the resulting negative impact on distributions, the Fund implemented a hedging program in 2006 with 56% of natural gas hedged for April to October 2007. See "Commodity Price Risk" section for a more detailed discussion of our price risk management.

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. Distributions are announced monthly and are based on the cash available after retaining a portion to meet such spending requirements. The level of distributions are primarily determined by cash flows received from the production of oil and natural gas from existing Canadian resource properties and will be susceptible to the risks and uncertainties associated with the oil and natural gas industry generally. If the oil and natural gas reserves associated with the Canadian resource properties are not supplemented through additional development or the acquisition of additional oil and natural gas properties, our distributions will decline over time in a manner consistent with declining production from typical oil and natural gas reserves. Therefore, distributions are highly dependent upon our success in exploiting the current reserve base and acquiring additional reserves. Furthermore, monthly distributions we pay to Unitholders are highly dependent upon the prices received for such oil and natural gas production. Oil and natural gas prices can fluctuate widely on a month-to-month basis in response to a variety of factors that are beyond our control. Declines in oil or natural gas prices will have an adverse effect upon our operations, financial condition, reserves and ultimately on our ability to pay distributions to Unitholders. The Fund attempts to mitigate the volatility in commodity prices through our hedging program. It is our long-term objective to provide stable and sustainable distributions to the Unitholders, while continuing to grow the Fund. However, given that funds from operations can vary significantly from month-to-month due to these factors, the Fund may utilize various financing alternatives as an interim measure to maintain stable distributions.

## Revenue

(\$000)	Three months ended September 30			Nine months ended September 30		
	2007	2006	% change	2007	2006	% change
Natural gas excluding hedging	\$ 60,022	\$ 66,228	(9)%	\$ 213,115	\$ 157,239	36%
Realized hedging gains	7,687	118	6,414%	12,171	118	10,214%
Natural gas including hedging	\$ 67,709	\$ 66,346	2%	\$ 225,286	\$ 157,357	43%
Crude oil and NGLs excluding hedging	\$ 63,598	\$ 58,175	9%	\$ 164,908	\$ 134,831	22%
Realized hedging gains (losses)	(477)	-	-	1,213	-	-
Crude oil and NGLs including hedging	\$ 63,121	\$ 58,175	9%	\$ 166,121	\$ 134,831	23%
<b>Total revenue</b>	<b>\$ 130,830</b>	<b>\$ 124,521</b>	<b>5%</b>	<b>\$ 391,407</b>	<b>\$ 292,188</b>	<b>34%</b>

Natural gas revenues, excluding hedging, have decreased 9% for the three months and increased 36% for the nine months ended September 30, 2007, compared to 2006. The decrease in natural gas revenues, excluding hedging, for the three months is mainly due to a 5% decrease in natural gas production and realized natural gas prices from the same period in 2006. Conversely, the increase in natural gas revenues, excluding hedging, for the nine month period ended in 2007 is mainly due to increased production from the inclusion of a full nine months of production from the Ketch merger and a modest increase in the realized natural gas price of 3%

compared to 2006. Crude oil and NGL revenues, excluding hedging, have increased by 9% for the three months and 22% for the nine months ended September 30, 2007, compared to 2006. Crude oil and NGL revenue increased due to additional production revenues from the Sound acquisition since September 5, 2007 and the inclusion of a full nine months of production from the Ketch merger. For the three and nine months ended September 30, 2007, the Fund recognized natural gas and crude oil net hedging gains of \$7.2 million and \$13.4 million primarily due to effective hedging contracts in place that offset weaker commodity prices experienced during 2007, particularly natural gas prices.

## Production

	Three months ended September 30			Nine months ended September 30		
	2007	2006	% change	2007	2006	% change
Natural gas (mcf/d)	115,991	122,227	(5)%	113,104	86,303	31%
Crude oil (bbls/d)	7,750	6,982	11%	7,308	5,978	22%
NGLs (bbls/d)	2,264	2,348	(4)%	2,333	1,593	46%
<b>Total (boe/d)</b>	<b>29,346</b>	<b>29,701</b>	<b>(1)%</b>	<b>28,492</b>	<b>21,955</b>	<b>30%</b>
Natural gas (%)	66%	69%		66%	66%	
Crude oil (%)	26%	24%		26%	27%	
NGLs (%)	8%	7%		8%	7%	

The Fund's total daily production averaged 29,346 boe/d for the three months and 28,492 boe/d for the nine months ended September 30, 2007, a decrease of 1% and an increase of 30%, respectively, compared with the same periods of 2006. Natural gas production decreased 5%, crude oil production increased 11%, and NGLs production decreased 4% for the third quarter of 2007. For the nine months ended September 30, 2007, natural gas production increased 31%, crude oil production increased 22%, and NGLs production increased 46%. Production for the quarter is similar to the prior year as natural production declines have been primarily offset by capital development activity and additional production from the Sound properties for the 26 days since closing the acquisition. The increase in production year to date for 2007 from 2006 has been primarily attributed to a full nine months of production from the Ketch acquisition in 2007, which closed June 23, 2006, and the Sound acquisition which contributed 26 days of production. Production for the third quarter increased 8% from the second quarter of 2007 due to the acquisition of Sound. This was offset by a significant amount of 3<sup>rd</sup> party facility outages that were anticipated and wet weather during July that delayed tie-ins of oil and gas wells.

Our successful first quarter 2007 drilling program at Martin Creek, followed by continued success at Sunset, Nevis, Willesden Green, as well as other areas in Southern Alberta and Saskatchewan, has helped offset natural declines. In addition, our flattening production platform, resulting from our continued focus on long life assets, is contributing to a stable operating foundation. For the remainder of the year, we are directing our drilling activity toward crude oil projects with an estimated exit rate of production of approximately 35,000 boe/d.

## Commodity Prices and Marketing

### Natural Gas

(\$/mcf)	Three months ended September 30			Nine months ended September 30		
	2007	2006	% change	2007	2006	% change
Realized natural gas prices						
Excluding hedging	\$ 5.62	\$ 5.89	(5)%	\$ 6.90	\$ 6.67	3%
Including hedging	\$ 6.35	\$ 5.90	8%	\$ 7.30	\$ 6.68	9%
AECO monthly index	\$ 5.62	\$ 6.03	(7)%	\$ 6.81	\$ 7.19	(5)%

Realized natural gas prices, excluding hedging, decreased 5% for the three months and increased 3% for the nine months ended September 30, 2007, as compared to 2006. The price of natural gas is primarily based on supply and demand fundamentals in the North American marketplace, however market speculation activity has increased price volatility. Natural gas prices have declined due to high storage injections, mild summer weather and lack of storm activity in the Gulf of Mexico. Inventory levels remain higher than the five year average, causing continued downward pressure on commodity prices which decreased significantly through the summer and have been continuing to decrease since the end of 2006. Although it appears that we can expect prolonged weak natural gas prices in the short-term, 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 evidenced by the increase in proposed gas fired electrical generation facilities, (ii) significantly less natural gas drilling in Canada projected for 2007 and 2008, which will reduce productivity to offset declines, (iii) the increasing focus on resource style natural gas wells, which have high initial declines and require a higher threshold economic price than conventional gas drilling and (iv) the demand for natural gas for the Canadian oil sands projects.

### Crude Oil and NGLs

(\$/bbl)	Three months ended September 30			Nine months ended September 30		
	2007	2006	% change	2007	2006	% change
Realized crude oil prices						
Excluding hedging	\$ 70.22	\$ 69.77	1%	\$ 64.60	\$ 66.97	(4)%
Including hedging	\$ 69.55	\$ 69.77	-	\$ 65.21	\$ 66.97	(3)%
Realized NGLs prices						
Excluding hedging	\$ 64.95	\$ 61.84	5%	\$ 56.55	\$ 58.73	(4)%
Realized crude oil and NGLs prices						
Excluding hedging	\$ 69.03	\$ 67.77	2%	\$ 62.65	\$ 65.24	(4)%
Including hedging	\$ 68.51	\$ 67.77	1%	\$ 63.11	\$ 65.24	(3)%
WTI (\$US/bbl)	\$ 75.33	\$ 70.55	7%	\$ 66.22	\$ 68.42	(3)%
\$US/\$Canadian exchange rate	\$ 0.96	\$ 0.89	8%	\$ 0.91	\$ 0.88	3%

Realized crude oil and NGLs prices, excluding hedging, increased 2% for the three months and decreased 4% for the nine months ended September 30, 2007, as compared to the same periods of 2006. Advantage's crude oil prices are based on the benchmark pricing of West Texas Intermediate Crude ("WTI") adjusted for quality, transportation costs and \$US/\$Canadian exchange rates. For the three and nine months ended September 30, 2007, WTI increased 7% and decreased 3%, respectively, with significant increases experienced in the third quarter of 2007. Advantage's realized crude oil price has not changed to the same extent as WTI due to the change in foreign exchange rates and changes in Canadian crude oil differentials relative to WTI. The price of WTI fluctuates based on worldwide supply and demand fundamentals. There has been significant price volatility experienced over the last several years whereby WTI has reached historic high levels. Many developments have resulted in the current price levels, including significant continuing geopolitical issues and general market speculation. In fact, the impact of market fundamentals has diminished as geopolitical events and speculation has prevailed. As a result, prices have remained strong throughout 2007 and continue to increase. With the current high price levels, it is notable that demand has remained resilient. Regardless whether the current price level is sustainable or just a short-term anomaly, we believe that the pricing fundamentals for crude oil remain strong with many factors affecting the continued strength including (i) supply management and supply restrictions by the OPEC cartel, (ii) ongoing civil unrest in Venezuela, Nigeria, and the Middle East, (iii) strong world wide demand, particularly in China, India and the United States and (iv) North American refinery capacity constraints.

### Commodity Price Risk

The Fund's operational results and financial condition will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by economic and, in the case of oil prices, political factors. Supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions, impact prices. Any movement in oil and natural gas prices could have an effect on the Fund's financial condition and therefore on the distributions to holders of Advantage Trust Units. As current and future practice, Advantage has established a financial hedging strategy and may manage the risk associated with changes in commodity prices by entering into derivatives. These commodity price risk management 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.

Currently, the Fund has the following derivatives in place:

Description of Derivative	Term	Volume	Average Price
<b>Natural gas - AECO</b>			
Fixed price	April 2007 to October 2007	9,478 mcf/d	Cdn\$7.16/mcf
Fixed price	April 2007 to October 2007	9,478 mcf/d	Cdn\$7.55/mcf
Fixed price	November 2007 to March 2008	7,109 mcf/d	Cdn\$9.54/mcf
Collar	March 2007 to December 2007	9,478 mcf/d	Floor Cdn\$7.91/mcf Ceiling Cdn\$9.50/mcf
Collar	May 2007 to December 2007	4,739 mcf/d	Floor Cdn\$7.91/mcf Ceiling Cdn\$9.50/mcf
Collar	November 2007 to March 2008	9,478 mcf/d	Floor Cdn\$8.44/mcf Ceiling Cdn\$10.29/mcf
Collar	November 2007 to March 2008	7,109 mcf/d	Floor Cdn\$8.70/mcf Ceiling Cdn\$10.71/mcf
<b>Crude oil - WTI</b>			
Collar	January 2007 to December 2007	500 bbls/d	Floor US\$70.00/bbl Ceiling US\$74.30/bbl
Collar	March 2007 to December 2007	1,000 bbls/d	Floor US\$57.00/bbl Ceiling US\$70.00/bbl
Collar	April 2007 to December 2007	500 bbls/d	Floor US\$60.00/bbl Ceiling US\$71.50/bbl

As at September 30, 2007 the fair value of the derivatives outstanding was a net asset of approximately \$11.3 million. For the nine months ended September 30, 2007, \$2.0 million was recognized in income as an unrealized derivative loss due to a decrease in the fair value from December 31, 2006 and \$13.4 million was recognized in income as a realized derivative gain, which partially alleviated lower revenue from reduced commodity prices, particularly natural gas. As a result of the Sound acquisition, the Fund assumed several of these derivatives which had an estimated net fair value on closing of \$2.8 million. The change in fair value of these derivatives since acquisition to the end of the period has been recognized in income as an unrealized derivative gain or loss. The valuation of the derivatives is the estimated fair value to settle the contracts as at September 30, 2007 and is based on pricing models, estimates, assumptions and market data available at that time. The actual gain or loss realized on cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions. The Fund does not apply hedge accounting and current accounting standards require changes in the fair value to be included in the consolidated statement of income and comprehensive income as an unrealized derivative gain or loss with a corresponding derivative asset or liability recorded on the balance sheet.

In addition, the Fund has the following physical natural gas contracts in place that are not recognized on the balance sheet at fair value, but instead have gains and losses recognized in earnings as the contracts settle:

Description of Physical Contract	Term	Volume	Average Price
<b>Natural gas - AECO</b>			
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
Collar	April 2007 to October 2007	9,478 mcf/d	Floor Cdn\$6.33/mcf Ceiling Cdn\$7.20/mcf

Although the Fund has several fixed price contracts expiring soon, we will be closely monitoring commodity markets and will pursue new opportunities to enter contracts that will mitigate commodity price changes for 2008.

Currently, the Fund has fixed the commodity price on anticipated production as follows:

Commodity	Approximate Production		
	Hedged, Net of Royalties	Minimum Price	Maximum Price
<b>Natural gas - AECO</b>			
April 2007 to October 2007	56%	Cdn\$7.14/mcf	Cdn\$8.18/mcf
November 2007 to March 2008	27%	Cdn\$8.71/mcf	Cdn\$10.08/mcf
<b>Crude Oil - WTI</b>			
April 2007 to October 2007	17%	US\$64.05/bbl	US\$85.58/bbl
November 2007 to December 2007	19%	US\$61.00/bbl	US\$71.45/bbl

## Royalties

	Three months ended September 30			Nine months ended September 30		
	2007	2006	% change	2007	2006	% change
	Royalties, net of Alberta Royalty Credit (\$000)	\$ 22,601	\$ 22,945	(1)%	\$ 71,515	\$ 53,107
per boe	\$ 8.37	\$ 8.40	-	\$ 9.19	\$ 8.86	4%
As a percentage of revenue, excluding hedging	18.3%	18.4%	(0.1)%	18.9%	18.2%	0.7%

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 for 2006 are shown net of the Alberta Royalty Credit, which was a royalty rebate provided by the Alberta government to certain producers and was eliminated effective January 1, 2007. Royalties are comparable for the quarter and have increased for the nine months ended September 30, 2007 due to the increase in revenue from higher production. Royalties as a percentage of revenue, excluding hedging, have increased slightly from the 2006 period due to the inclusion of slightly higher royalty rate properties from the Ketch acquisition. We expect the royalty rate to remain comparable for the remainder of 2007.

On October 25, 2007, the Alberta Provincial Government announced changes to royalties for conventional oil, natural gas and oil sands that will become effective January 1, 2009. Given the methodology used in the new royalty regime, the effect on cash flow will be affected by depths and productivity of wells and makes them price sensitive with higher royalty levels applying when commodity prices are higher. A review of the initial information released by the Alberta Provincial Government indicates that lower rate natural gas wells will see a benefit of lower royalties while conventional oil will be subject to an increase in royalties but is again less punitive at lower rates. Commodity prices and individual well production rates are both key factors in the calculation. The majority of Advantage's production in Alberta comes from lower rate wells due to well established large, long life properties. In addition, we have a significant presence in British Columbia and Saskatchewan. Therefore, early indications are that the impact may not be significant based on our current production and the current commodity price environment. Advantage continues to analyze the impact of the decision and will take the new royalty regime into consideration in preparing future development projects. Project economics are evaluated taking into consideration all relevant factors including the new royalty regime given the commodity pricing environment anticipated. Those projects that maximize return to Advantage Unitholders will continue to be selected for development.

## Operating Costs

	Three months ended September 30			Nine months ended September 30		
	2007	2006	% change	2007	2006	% change
	Operating costs (\$000)	\$ 30,790	\$ 24,369	26%	\$ 87,979	\$ 55,108
per boe	\$ 11.40	\$ 8.92	28%	\$11.31	\$ 9.19	23%

Total operating costs increased 26% for the three months and 60% for the nine months ended September 30, 2007 as compared to 2006, mainly due to increased production from the Ketch acquisition which was completed June 23, 2006. Total operating costs also increased slightly for the Sound acquisition with 26 days of costs included in the three and nine months ended September 30, 2007. Operating costs per boe increased 28% for the three months and 23% for the nine months ended September 30, 2007, mainly due to lower production levels related to second quarter third party turnaround activity that extended into the third quarter, an extended spring break-up, and increased service and supply costs as the industry experienced overall cost increases. However, third quarter 2007 per unit operating costs increased by only 4% when compared to the three months ended June 30, 2007 with the inclusion of Sound and higher maintenance costs which are typical for the period. We will continue to be opportunistic and proactive in pursuing optimization initiatives that will improve our operating cost structure. The Fund has been active in preserving the price of power

costs by hedging 3.5 MW at \$56.68/MWh for 2007 and 3.0 MW at \$54.00/MWh for 2008, which represents a significant portion of our power usage. We anticipate additional savings in the newly acquired higher operating cost Sound properties combined with existing Advantage properties. We expect that operating costs per boe will be in the range of \$12.50 to \$13.50 for the fourth quarter of 2007 which will include the full impact of the Sound acquisition.

## General and Administrative

	Three months ended			Nine months ended		
	September 30			September 30		
	2007	2006	% change	2007	2006	% change
General and administrative expense (\$000)	\$ 4,543	\$ 4,766	(5)%	\$ 13,491	\$ 9,152	47%
per boe	\$ 1.68	\$ 1.74	(3)%	\$ 1.73	\$ 1.53	13%

General and administrative (“G&A”) expense has decreased 5% for the three months and increased 47% for the nine months ended September 30, 2007, as compared to 2006. G&A per boe decreased 3% for the three months and increased 13% for the nine months when compared to the same periods of 2006. G&A expense for the nine months ended September 30, 2007 has increased overall and per boe primarily due to an increase in staff levels that have resulted from the June 23, 2006 Ketch acquisition and growth of the Fund. Additionally, the Ketch acquisition was conditional on Advantage internalizing the external management contract structure and eliminating all related fees for a more typical employee compensation arrangement. The new employee compensation plan has resulted in higher G&A expense that is offset by the elimination of future management fees and performance incentive. Prior to elimination of the management contract, the quarterly management fee and annual performance incentive were not included within G&A.

## Unit-Based Compensation

Advantage’s current employee compensation includes a Restricted Trust Unit Plan (the “Plan”), as approved by the Unitholders on June 23, 2006, and Trust Units issuable for the retention of certain employees of the Fund. The purpose of the long-term compensation plans is to retain and attract employees, to reward and encourage performance, and to focus employees on operating and financial performance that result in lasting Unitholder return.

The Plan authorizes the Board of Directors to grant Restricted Trust Units (“RTUs”) to directors, officers, or employees of the Fund. The number of RTUs granted is based on the Fund’s Trust Unit return for a calendar year and compared to a peer group approved by the Board of Directors. The Trust Unit return is calculated at the end of the year and is primarily based on the year-over-year change in the Trust Unit price plus distributions. The RTU grants vest one third immediately on grant date, with the remaining two thirds vesting evenly on the following two yearly anniversary dates. The holders of RTUs may elect to receive cash upon vesting in lieu of the number of Trust Units to be issued, subject to consent of the Fund. Compensation cost related to the Plan is based on the “fair value” of the RTUs at the grant date and is recognized as compensation expense over the service period. This valuation incorporates the period end Trust Unit price, the estimated number of RTUs to vest, and certain management estimates. The maximum fair value of RTUs granted in any one calendar year is limited to 175% of the base salaries of those individuals participating in the Plan for such period. No RTUs have been granted under the Plan at this time and accordingly, no compensation expense relating to the RTUs has been recognized in the interim financial statements. Once the calendar year is completed and the final Trust Unit return is calculated for the return period RTUs may be granted and consequently, compensation expense may be recognized at that time. As the Fund did not meet the 2006 grant thresholds, there was no RTU grant made for the 2006 year.

For the nine months ended September 30, 2007, the Fund has accrued unit-based compensation expense of \$0.8 million and has capitalized \$0.3 million related to Trust Units issuable for the retention of certain employees of the Fund.

## Management Fee, Performance Incentive, and Management Internalization

	Three months ended			Nine months ended		
	September 30			September 30		
	2007	2006	% change	2007	2006	% change
Management fee (\$000)	\$ -	\$ -	-	\$ -	\$ 887	(100)%
per boe	\$ -	\$ -	-	\$ -	\$ 0.15	(100)%
Performance incentive (\$000)	\$ -	\$ -	-	\$ -	\$ 2,380	(100)%
Management internalization (\$000)	\$ 2,455	\$ 7,428	(67)%	\$ 13,174	\$ 7,952	66%

Prior to the Ketch merger, the Manager received both a management fee and a performance incentive fee as compensation pursuant to the Management Agreement approved by the Board of Directors. 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, thereby eliminating the management fee and performance incentive effective April 1, 2006. The Trust Unit consideration issued in exchange for the outstanding shares of the Manager was placed in escrow for a 3-year period and is being deferred and amortized into income as management internalization expense over the specific vesting periods during which employee services are provided. The management internalization is lower for the quarter since one third vested and was paid in June 2007 while two thirds remains outstanding.

## Interest

	Three months ended			Nine months ended		
	September 30			September 30		
	2007	2006	% change	2007	2006	% change
Interest expense (\$000)	\$ 6,242	\$ 5,711	9%	\$ 16,434	\$ 12,844	28%
per boe	\$ 2.31	\$ 2.09	11%	\$ 2.11	\$ 2.14	(1)%
Average effective interest rate	5.9%	5.2%	0.7%	5.6%	5.0%	0.6%
Bank indebtedness at September 30 (\$000)				\$521,144	\$372,514	40%

Interest expense has increased 9% for the three months and 28% for the nine months ended September 30, 2007, as compared to 2006. Interest expense per boe has increased 11% for the three months and decreased 1% for the nine months ended September 30, 2007. The increase in total interest expense is primarily attributable to a higher average debt level associated with the growth of the Fund, an increase in the average effective interest rates and increased bank indebtedness assumed on the Sound and Ketch acquisitions. 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 only 5.6% for the nine months ended September 30, 2007. 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			Nine months ended		
	September 30			September 30		
	2007	2006	% change	2007	2006	% change
Interest on convertible debentures (\$000)	\$ 3,910	\$ 3,308	18%	\$ 10,441	\$ 7,921	32%
per boe	\$ 1.45	\$ 1.21	20%	\$ 1.34	\$ 1.32	2%
Accretion on convertible debentures (\$000)	\$ 644	\$ 604	7%	\$ 1,848	\$ 1,502	23%
per boe	\$ 0.24	\$ 0.22	9%	\$ 0.24	\$ 0.25	(4)%
Convertible debentures maturity value at September 30 (\$000)				\$281,273	\$180,730	56%

Interest on convertible debentures has increased 18% for the three months and 32% for the nine months ended September 30, 2007, as compared to 2006. Accretion on convertible debentures has increased 7% for the three months and 23% for the nine months ended September 30, 2007. The increases in total interest and accretion are due to Advantage assuming Sound's 8.75% and 8.00% convertible debentures and Ketch's 6.50% convertible debentures in the 2006 merger. The increased interest and accretion from the additional debentures has been slightly offset due to the exchange of convertible debentures to Trust Units during 2006 that pay distributions rather than interest. Interest and accretion per boe for the quarter is higher as our convertible debentures outstanding has slightly increased relative to our level of production.

## Cash Netbacks

	Three months ended				Nine months ended			
	September 30				September 30			
	2007		2006		2007		2006	
	\$000	per boe	\$000	per boe	\$000	per boe	\$000	per boe
Revenue	\$ 123,620	\$ 45.79	\$ 124,403	\$ 45.53	\$ 378,023	\$ 48.60	\$ 292,070	\$ 48.73
Realized gain on derivatives	7,210	2.67	118	0.04	13,384	1.72	118	0.02
Royalties, net of Alberta Royalty Credit(22,601)	(8.37)	(22,945)	(8.40)	(71,515)	(9.19)	(53,107)	(8.86)	
Operating costs	(30,790)	(11.40)	(24,369)	(8.92)	(87,979)	(11.31)	(55,108)	(9.19)
<b>Operating</b>	<b>\$ 77,439</b>	<b>\$ 28.69</b>	<b>\$ 77,207</b>	<b>\$ 28.25</b>	<b>\$ 231,913</b>	<b>\$ 29.82</b>	<b>\$ 183,973</b>	<b>\$ 30.70</b>
General and administrative	(4,543)	(1.68)	(4,766)	(1.74)	(13,491)	(1.73)	(9,152)	(1.53)
Management fee	-	-	-	-	-	-	(887)	(0.15)
Interest	(6,242)	(2.31)	(5,711)	(2.09)	(16,434)	(2.11)	(12,844)	(2.14)
Interest on convertible debentures	(3,910)	(1.45)	(3,308)	(1.21)	(10,441)	(1.34)	(7,921)	(1.32)
Income and capital taxes	(399)	(0.15)	(312)	(0.11)	(923)	(0.12)	(1,148)	(0.19)
<b>Funds from operations</b>	<b>\$ 62,345</b>	<b>\$ 23.10</b>	<b>\$ 63,110</b>	<b>\$ 23.10</b>	<b>\$ 190,624</b>	<b>\$ 24.52</b>	<b>\$ 152,021</b>	<b>\$ 25.37</b>

Funds from operations of Advantage for the quarter ended September 30, 2007 decreased to \$62.3 million from \$63.1 million in the prior year. Funds from operations for the nine months ended September 30, 2007 increased to \$190.6 million from \$152.0 million compared to 2006. The cash netback per boe for the three months ended September 30, 2007 remained comparable to the same quarter of 2006, but decreased 3% from \$25.37 to \$24.52 for the nine months ended September 30, 2007. The lower cash netback per boe for the nine months ended September 30, 2007 is primarily due to higher royalties and operating costs. Operating costs have steadily increased over the past year due to significantly higher field costs associated with supplies and services that has resulted from the high level of industry activity and an overall industry labour cost increase. Although we have experienced significant upward pressure on operating costs, it is notable that operating costs per boe for the quarter remained comparable to the second quarter of 2007. When compared to the second quarter of 2007, funds from operations was similar as production increased 8%, mainly due to the acquisition of Sound, and was offset by decreased realized natural gas prices before hedging of 25%. Reduced natural gas prices were partially mitigated by increased realized crude oil and NGL prices before hedging of 12% and an increase in realized hedging gains of \$7.3 million.

## Depletion, Depreciation and Accretion

	Three months ended			Nine months ended		
	September 30			September 30		
	2007	2006	% change	2007	2006	% change
Depletion, depreciation & accretion (\$000)	\$ 68,743	\$ 67,601	2%	\$194,026	\$130,788	48%
per boe	\$ 25.46	\$ 24.74	3%	\$ 24.94	\$ 21.82	14%

Depletion and depreciation of property and equipment is provided on the “unit-of-production” method based on total proved reserves. The depletion, depreciation and accretion (“DD&A”) provision has increased 2% for the three months and 48% for the nine months ended September 30, 2007. The nine months increase is due to the considerable increases of daily production volumes, mainly from the Ketch acquisition and the increase in the DD&A rate per boe compared to the prior year. The increased DD&A rate per boe was due to a higher valuation assigned for reserves from recent acquisitions than accumulated from prior acquisitions and development activities.

## Taxes

Current taxes paid or payable for the quarter ended September 30, 2007 amounted to \$0.4 million, which is comparable to the \$0.3 million expensed for the same period of 2006. Current taxes primarily represent Saskatchewan resource surcharge, which is based on the petroleum and natural gas revenues within the province of Saskatchewan.

Future income taxes arise from differences between the accounting and tax bases of the assets and liabilities. For the nine months ended September 30, 2007, the Fund recognized an income tax expense of \$0.2 million compared to a reduction of \$17.5 million for 2006. The impact of the Specified Investment Flow-Through Entity (“SIFT”) tax legislation is reflected in 2007 and resulted in future income tax expense of \$13.8 million. The new tax law has altered the tax treatment of income trusts by subjecting income trusts to a

two-tier tax structure, similar to that of corporations, whereby the taxable portion of distributions paid by trusts will be subject to tax at the trust level and at the Unitholder level. The rules are effective for tax years beginning in 2011 for existing publicly-traded trusts. As at September 30, 2007, we had a future income tax liability balance of \$84.1 million, compared to \$61.9 million at December 31, 2006. 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 Sound acquisition, Advantage recorded a future tax liability of \$22.0 million.

On October 30, 2007, the Federal government announced proposed corporate income tax rate reductions effective January 1, 2008 to be phased in over the next five years to 2012. These rate reductions will apply to the new tax on distributions of income trusts and other specified investment flow-through entities as of 2011 with a proposed rate reduction of 2% from the current 2011 tax rate and an additional 1.5% rate reduction in 2012. The Fund is currently assessing the impact of such proposed income tax rate reductions and will recognize a future income tax reduction once the proposed rate reductions are substantively enacted.

### 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
		2007	2008	2009	2010	
Building leases	\$ 30.1	\$ 1.2	\$ 6.3	\$ 6.7	\$ 6.7	\$ 9.2
Capital leases	8.7	0.7	1.9	2.0	2.2	1.9
Pipeline/transportation	7.8	1.7	4.8	1.2	0.1	-
Convertible debentures <sup>(1)</sup>	281.3	1.5	5.4	116.6	70.0	87.8
<b>Total contractual obligations</b>	<b>\$ 327.9</b>	<b>\$ 5.1</b>	<b>\$ 18.4</b>	<b>\$ 126.5</b>	<b>\$ 79.0</b>	<b>\$ 98.9</b>

<sup>(1)</sup> As at September 30, 2007, Advantage had \$281.3 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 either directly or indirectly through the issuance of Trust Units.

<sup>(2)</sup> Bank indebtedness of \$521.1 million has been excluded from the contractual obligations table as the credit facilities constitute a revolving facility for a 364 day term which is extendible annually for a further 364 day revolving period at the option of the syndicate. If not extended, the revolving credit facility is converted to a two year term facility with the first payment due one year and one day after commencement of the term.

## Liquidity and Capital Resources

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

<b>(\$000, except as otherwise indicated)</b>	<b>September 30, 2007</b>
Bank indebtedness (long-term)	\$ 521,144
Working capital deficit <sup>(1)</sup>	24,666
Net debt	\$ 545,810
Trust Units outstanding (000)	133,847
Trust Unit closing market price (\$/Trust Unit)	\$ 12.22
Market value	\$ 1,635,610
Capital lease obligation (long-term)	\$ 5,969
Convertible debentures maturity value (long-term)	274,401
<b>Total capitalization</b>	<b>\$ 2,461,790</b>

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

## Unitholders' Equity and Convertible Debentures

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

As at September 30, 2007, the Fund had 133.8 million Trust Units outstanding. On February 14, 2007 Advantage issued 7,800,000 Trust Units, plus an additional 800,000 Trust Units upon exercise of the Underwriters' over-allotment option on March 7, 2007, at \$12.80 per Trust Unit for approximate net proceeds of \$104.1 million (net of Underwriters' fees and other issue costs of \$6.0 million). The net proceeds of the offering were used to pay down bank indebtedness and to subsequently fund capital and general corporate expenditures. On September 5, 2007, Advantage issued 16,977,184 Trust Units to finalize the acquisition of Sound. As at November 12, 2007, Advantage had 137.5 million Trust Units issued and outstanding.

On July 24, 2006, Advantage adopted a Premium Distribution<sup>(TM)</sup>, Distribution Reinvestment and Optional Trust Unit Purchase Plan (the "Plan"). 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<sup>(TM)</sup> 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. During the nine months ended September 30, 2007, 2,862,545 Trust Units were issued as a result of the Plan, generating \$34.3 million reinvested in the Fund and representing an approximate 19% participation rate.

As at September 30, 2007, the Fund had \$281.3 million convertible debentures outstanding that were convertible to 12.1 million Trust Units based on the applicable conversion prices. During the nine months ended September 30, 2007, \$5,000 of convertible debentures were converted resulting in the issuance of 375 Trust Units. Due to the acquisition of Sound, \$59,513,000 8.75% and \$41,035,000 8.00% convertible debentures were assumed by Advantage on September 5, 2007. As a result of the change in control of Sound, the Fund was required by the debenture indentures to make an offer to purchase all of the outstanding convertible debentures assumed from Sound as at a price equal to 101% of the principal amount plus accrued and unpaid interest. On October 17, 2007, the expiry date of the offer, 911,709 Trust Units were issued and \$19.9 million in cash consideration was paid in exchange for \$29,665,000 8.75% convertible debentures and 2,220,289 Trust Units were issued in exchange for \$25,507,000 8.00% convertible debentures. As at November 12, 2007, the Fund had \$224.6 million convertible debentures outstanding due to the additional conversion of \$19,000 convertible debentures to 1,011 Trust Units and the maturity of \$1,470,000 of the 10% convertible debentures exchanged for 127,458 Trust Units on November 1, 2007.

## Bank Indebtedness, Credit Facility and Other Obligations

At September 30, 2007, Advantage had bank indebtedness outstanding of \$521.1 million. The Fund has a \$710 million credit facility agreement consisting of a \$690 million extendible revolving loan facility and a \$20 million operating loan facility. The current credit facilities are 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 September 30, 2007, Advantage had a working capital deficiency of \$24.7 million. Our working capital includes items expected for normal operations such as trade receivables, prepaids, deposits, trade payables and accruals as well as the current portion of capital lease obligations and convertible debentures. Working capital varies primarily due to the timing of such items, the current level of

business activity including our capital program, commodity price volatility, and seasonal fluctuations. Advantage has no unusual working capital requirements. We do not anticipate any problems in meeting future obligations as they become due given the strength of our funds from operations. It is also important to note that working capital is effectively integrated with Advantage's operating credit facility, which assists with the timing of cash flows as required.

During the quarter ended September 30, 2007, Advantage entered a new lease arrangement that resulted in the recognition of a fixed asset addition and capital lease obligation of \$1.8 million. The lease obligation bears interest at 6.7% and is secured by the related equipment. The lease term expires August 2010 with a final payment obligation of \$0.7 million. On September 5, 2007, Advantage assumed two capital lease obligations in the acquisition of Sound resulting in the recognition of a capital lease obligation of \$1.6 million. Both of the lease obligations bear interest at 5.6% and are secured by the related equipment. The lease terms expire December 2009 and April 2010 with a total final payment obligation of \$0.9 million.

## Capital Expenditures

(\$000)	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Land and seismic	\$ 221	\$ 1,461	\$ 4,142	\$ 4,739
Drilling, completions and workovers	22,156	35,819	64,766	70,534
Well equipping and facilities	9,751	11,560	38,325	21,747
Other	290	767	559	1,358
	\$ 32,418	\$ 49,607	\$ 107,792	\$ 98,378
Acquisition of Sound Energy Trust	22,374	-	22,374	-
Property acquisitions	-	198	12,851	198
Property dispositions	-	(8,727)	(427)	(8,727)
<b>Total capital expenditures</b>	<b>\$ 54,792</b>	<b>\$ 41,078</b>	<b>\$ 142,590</b>	<b>\$ 89,849</b>

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

For the three month period ended September 30, 2007, the Fund spent a net \$32.4 million and drilled a total of 18.3 net (31 gross) wells at a 100% success rate. During the quarter we drilled 3 net (3 gross) oil wells and 2 net (2 gross) gas wells at Nevis, 2.8 net (4 gross) oil wells at Sunset, 1 net (1 gross) each oil and gas well at Willesden Green, 3 net (3 gross) gas wells at Girouxville, as well as several wells at other minor properties. Total capital spending in the quarter included \$8.7 million at Nevis, \$5.9 million at Willesden Green, \$3.6 million at Sunset, \$2.4 million at Martin Creek and \$1.6 million in Southeast Saskatchewan. Property acquisitions year to date include a \$12.9 million property acquisition in the first quarter for producing properties and undeveloped land at the Fund's core area, Nevis and \$22.4 million related to the Sound acquisition in the third quarter which represents the cash portion paid due to the exercise of the cash option offered to Sound unitholders.

Capital spending, before property acquisitions and dispositions, for the nine months ended September 30, 2007 was below our internal plans due to prolonged wet weather resulting in a long spring break-up and restricted access. The reduced spending has been partially responsible for delays in bringing on expected production in the second and third quarters of 2007. However, the Fund still anticipates spending the full capital budget for the 2007 year, in addition to the Sound acquisition.

The following table summarizes the various funding requirements during the nine months ended September 30, 2007 and the sources of funding to meet those requirements.

## Sources and Uses of Funds

(\$000)	Nine months ended September 30, 2007	
<b>Sources of funds</b>		
Funds from operations	\$	190,624
Units issued, net of costs		104,240
Increase in bank indebtedness		2,611
Property dispositions		427
	<b>\$</b>	<b>297,902</b>
<b>Uses of funds</b>		
Distributions to Unitholders	\$	121,900
Expenditures on property and equipment		107,792
Increase in working capital		25,566
Acquisition of Sound Energy Trust		22,374
Property acquisitions		12,851
Expenditures on asset retirement		4,835
Reduction of capital lease obligations		2,584
	<b>\$</b>	<b>297,902</b>

## Quarterly Performance

(\$000, except as otherwise indicated)	2007				2006			2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Daily production								
Natural gas (mcf/d)	115,991	108,978	114,324	117,134	122,227	70,293	65,768	72,587
Crude oil and NGLs (bbls/d)	10,014	8,952	9,958	9,570	9,330	6,593	6,760	7,106
Total (boe/d)	29,346	27,115	29,012	29,092	29,701	18,309	17,721	19,204
Average prices								
Natural gas (\$/mcf)								
Excluding hedging	\$ 5.62	\$ 7.54	\$ 7.61	\$ 6.90	\$ 5.89	\$ 6.18	\$ 8.69	\$ 11.68
Including hedging	\$ 6.35	\$ 7.52	\$ 8.06	\$ 7.27	\$ 5.90	\$ 6.18	\$ 8.69	\$ 10.67
AECO monthly index	\$ 5.62	\$ 7.37	\$ 7.46	\$ 6.36	\$ 6.03	\$ 6.28	\$ 9.31	\$ 11.68
Crude oil and NGLs (\$/bbl)								
Excluding hedging	\$ 69.03	\$ 61.84	\$ 56.84	\$ 54.58	\$ 67.77	\$ 68.69	\$ 58.26	\$ 60.14
Including hedging	\$ 68.51	\$ 61.93	\$ 58.64	\$ 55.86	\$ 67.77	\$ 68.69	\$ 58.26	\$ 59.53
WTI (US\$/bbl)	\$ 75.33	\$ 65.02	\$ 58.12	\$ 60.21	\$ 70.55	\$ 70.75	\$ 63.88	\$ 60.04
Total revenues (before royalties)	\$ 130,830	\$ 125,075	\$ 135,502	\$ 127,539	\$ 124,521	\$ 80,766	\$ 86,901	\$ 110,172
Net income (loss)	\$ (26,202)	\$ 4,531	\$ 341	\$ 8,736	\$ 1,209	\$ 23,905	\$ 15,964	\$ 25,846
per Trust Unit - basic	\$ (0.22)	\$ 0.04	\$ 0.00	\$ 0.08	\$ 0.01	\$ 0.38	\$ 0.27	\$ 0.45
- diluted	\$ (0.22)	\$ 0.04	\$ 0.00	\$ 0.08	\$ 0.01	\$ 0.38	\$ 0.27	\$ 0.45
Funds from operations	\$ 62,345	\$ 62,634	\$ 65,645	\$ 62,737	\$ 63,110	\$ 42,281	\$ 46,630	\$ 60,906
Distributions declared	\$ 55,017	\$ 52,096	\$ 50,206	\$ 58,791	\$ 60,498	\$ 53,498	\$ 44,459	\$ 43,265

The table above highlights the Fund's performance for the third quarter of 2007 and also for the preceding seven quarters. During the first quarter of 2006 we experienced a decrease in daily production due to a one-time adjustment for 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 as some prior quarter issues were resolved and the addition of eight days of production from the Ketch properties. Production further increased in the third quarter of 2006 as the Ketch acquisition was fully integrated with Advantage. The second quarter of 2007 encountered a temporary production decrease as expected due to several facility turnarounds that had been planned for the period. The third quarter of 2007 includes the financial and operating results from the acquired Sound properties for 26 days. Advantage's revenues and funds from operations increased significantly beginning in the

third quarter of 2006 primarily due to the production from the merger with Ketch, offset by lower natural gas prices. Net income has been lower during the last four quarters due to reduced natural gas prices realized during the periods, amortization of the management internalization consideration and increased depletion and depreciation expense due to the Ketch merger.

### **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 fixed assets and goodwill. The reserve estimates are also used to assess the borrowing base for the Fund's credit facilities. Revision or changes in the reserve estimates can have either a positive or a negative impact on net income and the borrowing base of the Fund.

### **Controls and Procedures**

The Fund has established procedures and internal control systems to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management of the Fund is committed to providing timely, accurate and balanced disclosure of all material information about the Fund. Disclosure controls and procedures are in place to ensure all ongoing reporting requirements are met and material information is disclosed on a timely basis. The Chief Executive Officer and Vice-President Finance and Chief Financial Officer, individually, sign certifications that the financial statements, together with the other financial information included in the regular filings, fairly present in all material respects the financial condition, results of operations, and cash flows as of the dates and for the periods presented in the filings. The certifications further acknowledge that the filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the filings. During the third quarter of 2007, there were no significant changes that would materially affect, or are reasonably likely to materially affect, the internal controls over financial reporting.

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

### **Outlook**

The Fund's 2007 Budget, as approved by the Board of Directors, retained a high degree of activity and focused on drilling in many of our key properties where a high level of success was realized through 2006. Capital has also been directed to accommodate facility expansions and further develop enhanced recovery schemes as necessary. New drill bit additions are expected to be more effective in replacing production as corporate declines have continued to subside through the first nine months of 2007. Advantage's production now contains very little flush production from high impact wells and concentrated drilling programs (from 2004 and 2005 activities) creating a balanced and predictable platform.

During the third quarter of 2007, we realized significant impacts to our production due to third party plant outages. Wet weather through July affected the tie-in of new well production and reduced capital activity in the second and third quarters of 2007. Overall, we expect annual production in 2007 to be approximately 30,000 boe/d with a year-end exit rate of approximately 35,000 boe/d.

Advantage's 2007 capital expenditures is estimated to be approximately \$150 million which includes activity for the Sound assets during the fourth quarter of 2007. For the remainder of 2007, our capital program will be directed mainly at oil opportunities due to the continued strong commodity prices.

Per unit operating costs for 2007 are estimated to be in the \$11.60 to \$12.00/boe range and \$12.50 to \$13.50/boe range for the fourth quarter with the full impact of the Sound acquisition that had higher operating cost properties. Higher property taxes, surface rentals and additional trucking costs due to continued pipeline restrictions in Southeast Saskatchewan have been realized so far in 2007. Advantage is undertaking several operating cost reduction initiatives throughout 2007 to help offset these increases and we have begun to realize some key achievements in this area.

On October 25, 2007, the Alberta Provincial Government announced changes to royalties for conventional oil, natural gas and oil sands that will become effective January 1, 2009. Preliminary indications are that the changes will have a negligible impact on Advantage since we have a significant number of lower rate wells within our long life properties producing in Alberta. Advantage also has a significant Horseshoe Canyon coal bed methane drilling inventory that can be pursued which will also have a favorable royalty treatment due to lower rate per well characteristics. Our exposure in Northeast British Columbia and Saskatchewan also affords us further flexibility with mitigating the royalty impact in our capital program. For 2007, we estimate our royalty rate to be approximately 19-20%.

Advantage's funds from operations in 2007 will continue to be impacted by the volatility of crude oil and natural gas prices and the \$US/\$Canadian exchange rate. 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 and from the significant inventory of drilling opportunities that has resulted from the Ketch and Sound acquisitions.

Looking forward, Advantage's high quality assets combined with a greater than five year drilling inventory, hedging program and significant tax pools provides many options for the Fund and we are committed to maximizing value generation for our Unitholders.

### **Additional Information**

Additional information relating to Advantage can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and the Fund's website at [www.advantageincome.com](http://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.

November 12, 2007

## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Balance Sheets

(thousands of dollars)	September 30, 2007 (unaudited)	December 31, 2006
<b>Assets</b>		
Current assets		
Accounts receivable	\$ 89,564	\$ 79,537
Prepaid expenses and deposits	19,688	16,878
Derivative asset (note 11)	12,692	9,840
	121,944	106,255
Deposit on property acquisition	-	1,410
Derivative asset (note 11)	189	593
Fixed assets (note 3)	2,194,515	1,753,058
Goodwill	120,271	120,271
	<b>\$ 2,436,919</b>	<b>\$ 1,981,587</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 105,234	\$ 116,109
Distributions payable to Unitholders	20,077	18,970
Current portion of capital lease obligations (note 4)	1,821	2,527
Current portion of convertible debentures (note 5)	6,786	1,464
Derivative liability (note 11)	1,607	-
	135,525	139,070
Capital lease obligations (note 4)	5,969	305
Bank indebtedness (note 6)	521,144	410,574
Convertible debentures (note 5)	230,924	170,819
Asset retirement obligations (note 7)	53,737	34,324
Future income taxes (note 8)	84,113	61,939
	<b>1,031,412</b>	<b>817,031</b>
<b>Unitholders' Equity</b>		
Unitholders' capital (note 9)	1,973,513	1,592,758
Convertible debentures equity component (note 5)	46,010	8,041
Contributed surplus (note 9)	1,739	863
Accumulated deficit (note 10)	(615,755)	(437,106)
	<b>1,405,507</b>	<b>1,164,556</b>
	<b>\$ 2,436,919</b>	<b>\$ 1,981,587</b>

#### Commitments (note 12)

see accompanying Notes to Consolidated Financial Statements

**Consolidated Statements of Income,  
Comprehensive Income and Accumulated Deficit**

(thousands of dollars, except for per Trust Unit amounts) (unaudited)	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006
<b>Revenue</b>				
Petroleum and natural gas	\$ 123,620	\$ 124,403	\$ 378,023	\$ 292,070
Realized gain on derivatives (note 11)	7,210	118	13,384	118
Unrealized gain (loss) on derivatives (note 11)	(53)	13,725	(1,956)	14,257
Royalties, net of Alberta Royalty Credit	(22,601)	(22,945)	(71,515)	(53,107)
	<b>108,176</b>	<b>115,301</b>	<b>317,936</b>	<b>253,338</b>
<b>Expenses</b>				
Operating	30,790	24,369	87,979	55,108
General and administrative	4,543	4,766	13,491	9,152
Unit-based compensation (note 9)	156	-	785	-
Management fee	-	-	-	887
Performance incentive	-	-	-	2,380
Management internalization (note 9)	2,455	7,428	13,174	7,952
Interest	6,242	5,711	16,434	12,844
Interest and accretion on convertible debentures	4,554	3,912	12,289	9,423
Depletion, depreciation and accretion	68,743	67,601	194,026	130,788
	<b>117,483</b>	<b>113,787</b>	<b>338,178</b>	<b>228,534</b>
Income (loss) before taxes and non-controlling interest	(9,307)	1,514	(20,242)	24,804
Future income tax expense (reduction)	16,496	(7)	165	(17,451)
Income and capital taxes	399	312	923	1,148
	16,895	305	1,088	(16,303)
Net income (loss) before non-controlling interest	(26,202)	1,209	(21,330)	41,107
Non-controlling interest	-	-	-	29
<b>Net income (loss) and comprehensive income (loss)</b>	<b>(26,202)</b>	<b>1,209</b>	<b>(21,330)</b>	<b>41,078</b>
Accumulated deficit, beginning of period	(534,536)	(327,762)	(437,106)	(269,674)
Distributions declared	(55,017)	(60,498)	(157,319)	(158,455)
<b>Accumulated deficit, end of period</b>	<b>\$(615,755)</b>	<b>\$(387,051)</b>	<b>\$(615,755)</b>	<b>\$(387,051)</b>
Net income (loss) per Trust Unit (note 9)				
Basic	\$ (0.22)	\$ 0.01	\$ (0.19)	\$ 0.56
Diluted	\$ (0.22)	\$ 0.01	\$ (0.19)	\$ 0.56

see accompanying Notes to Consolidated Financial Statements

## Consolidated Statements of Cash Flows

(thousands of dollars) (unaudited)	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006
<b>Operating Activities</b>				
Net income (loss)	\$ (26,202)	\$ 1,209	\$ (21,330)	\$ 41,078
Add (deduct) items not requiring cash:				
Unrealized loss (gain) on derivatives	53	(13,725)	1,956	(14,257)
Unit-based compensation	156	-	785	-
Performance incentive	-	-	-	2,380
Management internalization	2,455	7,428	13,174	7,952
Accretion on convertible debentures	644	604	1,848	1,502
Depletion, depreciation and accretion	68,743	67,601	194,026	130,788
Future income tax	16,496	(7)	165	(17,451)
Non-controlling interest	-	-	-	29
Expenditures on asset retirement	(1,128)	(1,065)	(4,835)	(2,512)
Changes in non-cash working capital	4,097	16,926	(20,023)	14,083
<b>Cash provided by operating activities</b>	<b>65,314</b>	<b>78,971</b>	<b>165,766</b>	<b>163,592</b>
<b>Financing Activities</b>				
Units issued, net of costs (note 9)	(246)	152,200	104,240	152,673
Increase (decrease) in bank indebtedness	35,373	(128,323)	2,611	(68,827)
Reduction of capital lease obligations	(514)	(371)	(2,584)	(642)
Distributions to Unitholders	(42,595)	(63,359)	(121,900)	(152,106)
<b>Cash used in financing activities</b>	<b>(7,982)</b>	<b>(39,853)</b>	<b>(17,633)</b>	<b>(68,902)</b>
<b>Investing Activities</b>				
Expenditures on property and equipment	(32,418)	(49,607)	(107,792)	(98,378)
Property acquisitions	-	(198)	(12,851)	(198)
Property dispositions	-	8,727	427	8,727
Acquisition of Ketch Resources Trust	-	-	-	(10,236)
Acquisition of Sound Energy Trust (note 2)	(22,374)	-	(22,374)	-
Changes in non-cash working capital	(2,540)	1,960	(5,543)	5,395
<b>Cash used in investing activities</b>	<b>(57,332)</b>	<b>(39,118)</b>	<b>(148,133)</b>	<b>(94,690)</b>
Net change in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
<b>Cash, end of period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Supplementary Cash Flow Information</b>				
Interest paid	\$ 6,977	\$ 9,602	\$ 24,153	\$ 25,294
Taxes paid	\$ 244	\$ 176	\$ 1,074	\$ 1,446

see accompanying Notes to Consolidated Financial Statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007 (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, 2006, except as described below. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Advantage for the year ended December 31, 2006 as set out in Advantage’s Annual Report.

### 1. Changes in Accounting Policies

#### (a) Financial Instruments

Effective January 1, 2007, the Fund adopted CICA Handbook sections 3855 “Financial Instruments - Recognition and Measurement”, 3862 “Financial Instruments – Disclosures”, 3863 “Financial Instruments – Presentation”, and 3865 “Hedges”.

Section 3855 “Financial Instruments - Recognition and Measurement” establishes criteria for recognizing and measuring financial instruments including financial assets, financial liabilities and non-financial derivatives. Under this standard, all financial instruments must initially be recognized at fair value on the balance sheet. Measurement of financial instruments subsequent to the initial recognition, as well as resulting gains and losses, are recorded based on how each financial instrument was initially classified. The Fund has classified each identified financial instrument into the following categories: held for trading, loans and receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. Held for trading financial instruments are measured at fair value with gains and losses recognized in earnings immediately. Available for sale financial assets are measured at fair value with gains and losses, other than impairment losses, recognized in other comprehensive income and transferred to earnings when the asset is derecognized. Loans and receivables, held to maturity investments and other financial liabilities are recognized at amortized cost using the effective interest method and impairment losses are recorded in earnings when incurred. Upon adoption and with all new financial instruments, an election is available that allows entities to classify any financial instrument as held for trading. Only those financial assets and liabilities that must be classified as held for trading by the standard have been classified as such by the Fund. As the Fund frequently utilizes non-financial derivative instruments to manage market risk associated with volatile commodity prices, such instruments must be classified as held for trading and recorded on the balance sheet at fair value as derivative assets and liabilities. Section 3865 “Hedges” provides an alternative to recognizing gains and losses on derivatives in earnings if the instrument is designated as part of a hedging relationship and meets the necessary criteria. Under the alternative hedge accounting treatment, gains and losses on derivatives classified as effective hedges are included in other comprehensive income until the time at which the hedged item is realized. The Fund does not utilize derivative instruments for speculative purposes but has elected not to apply hedge accounting. Therefore, gains and losses on these instruments are recorded as unrealized gains and losses on derivatives in the consolidated statement of income, comprehensive income and accumulated deficit in the period they occur and as realized gains and losses on derivatives when the contracts are settled. Since unrealized gains and losses on derivatives are non-cash items, there is no impact on the statement of cash flows as a result of their recognition.

In some instances, derivative financial instruments can be embedded within other contracts. Embedded derivatives within a host contract must be recorded separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivatives are the same as those of a freestanding derivative, and the combined contract is not classified as held for trading or designated at fair value. The Fund selected January 1, 2003, as its accounting transition date for any potential embedded derivatives and has not identified any embedded derivatives that would require separation from the host contract and fair value accounting.

Transaction costs are frequently attributed to the acquisition or issue of a financial asset or liability. Section 3855 requires that such transaction costs incurred on held for trading financial instruments be expensed immediately. For other financial instruments, an entity can adopt an accounting policy of either expensing transaction costs as they occur or adding such transaction costs to the fair value of the financial instrument. The Fund has chosen a policy of adding transaction costs to the fair value initially recognized for financial assets and liabilities that are not classified as held for trading.

The Fund has adopted the new standards prospectively as required which allows amendments to the carrying values of financial instruments, effective as of the adoption date, to be recognized as an adjustment to the beginning balance of accumulated deficit. As the new standards have not resulted in any significant changes to the recognition and measurement of the Fund’s financial instruments, no adjustment to accumulated deficit was required. The new standards also require several additional disclosures in the notes to the financial statements. Among the disclosures required, the Fund must disclose the exposure to various risks associated with financial instruments and the policies that exist to manage these risks.

## (b) Comprehensive Income

Effective January 1, 2007, the Fund adopted CICA Handbook section 1530 “Comprehensive Income”. The Fund has adopted this section retroactively and there were no changes to prior periods. Comprehensive income consists of net income and other comprehensive income (“OCI”) with amounts included in OCI shown net of tax. Accumulated other comprehensive income is a new equity category comprised of the cumulative amounts of OCI. To date, the Fund does not have any adjustments in OCI and therefore comprehensive income is currently equal to net income.

## (c) Accounting Changes

Effective January 1, 2007, the Fund adopted the revised recommendations of CICA section 1506 “Accounting Changes”. The new recommendations permit voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including the changes in earnings. The guidance was effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007.

## (d) Recent Accounting Pronouncements Issued But Not Implemented

The CICA has issued section 1535 “Capital Disclosures”, which will be effective January 1, 2008 for the Fund. Section 1535 will require the Fund to provide additional disclosures relating to capital and how it is managed. It is not anticipated that the adoption of section 1535 will impact the amounts reported in the Fund’s financial statements as they primarily relate to disclosure.

## (e) Comparative Figures

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

## 2. Acquisition of Sound Energy Trust

On September 5, 2007, Advantage acquired all of the issued and outstanding Trust Units and Exchangeable Shares of Sound Energy Trust (“Sound”) for \$21.4 million cash consideration, 16,977,184 Advantage Trust Units and \$1.0 million of acquisition costs. Sound Unitholders and Exchangeable Shareholders could elect to receive 0.30 Advantage Trust Units for each Sound Trust Unit or receive \$0.66 in cash and 0.2557 Advantage Trust Units for each Sound Trust Unit. All of the Sound Exchangeable Shares were exchanged for Advantage Trust Units on the same ratio as the Sound Trust Units based on the conversion ratio in effect at the effective date of the acquisition. Sound was an energy trust engaged in the development, acquisition and production of, natural gas and crude oil in western Canada. The acquisition is being accounted for using the “purchase method” with the results of operations included in the consolidated financial statements as of the closing date of the acquisition. The purchase price has been allocated as follows:

<b>Net assets acquired and liabilities assumed:</b>		<b>Consideration:</b>	
Fixed assets	\$ 501,476	16,977,184 Trust Units issued	\$ 228,852
Accounts receivable	27,237	Cash	21,404
Prepaid expenses and deposits	3,930	Acquisition costs incurred	<u>970</u>
Derivative asset, net	2,797		<b><u>\$ 251,226</u></b>
Bank indebtedness	(107,959)		
Convertible debentures	(101,553)		
Accounts payable and accrued liabilities	(34,431)		
Future income taxes	(22,009)		
Asset retirement obligations	(16,695)		
Capital lease obligations	<u>(1,567)</u>		
	<b><u>\$ 251,226</u></b>		

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.

### 3. Fixed Assets

	Cost	Accumulated Depletion and Depreciation	Net Book Value
<b>September 30, 2007</b>			
Petroleum and natural gas properties	\$ 2,957,081	\$ 768,005	\$2,189,076
Furniture and equipment	9,671	4,232	5,439
	<b>\$ 2,966,752</b>	<b>\$ 772,237</b>	<b>\$ 2,194,515</b>
<b>December 31, 2006</b>			
Petroleum and natural gas properties	\$ 2,324,948	\$ 576,707	\$1,748,241
Furniture and equipment	8,175	3,358	4,817
	<b>\$ 2,333,123</b>	<b>\$ 580,065</b>	<b>\$1,753,058</b>

During the nine months ended September 30, 2007, Advantage capitalized general and administrative expenditures and unit-based compensation directly related to exploration and development activities of \$6.0 million (September 30, 2006 - \$4.0 million).

### 4. Capital Lease Obligations

The Fund has capital leases on a variety of fixed assets. Future minimum lease payments at September 30, 2007 consist of the following:

2007	\$ 708
2008	1,906
2009	2,040
2010	2,200
2011	1,925
	<hr/>
	8,779
Less amounts representing interest	(989)
	<hr/>
	7,790
Current portion	(1,821)
	<hr/>
	<b>\$ 5,969</b>

During the second quarter Advantage entered a new lease arrangement that resulted in the recognition of a fixed asset addition and capital lease obligation of \$4.1 million. The lease obligation bears interest at 5.8% and is secured by the related equipment. The lease term expires June 2011 with a final purchase obligation of \$1.5 million at which time ownership of the equipment will transfer to Advantage.

Effective September 4, 2007, Advantage entered a new lease arrangement that resulted in the recognition of a fixed asset addition and capital lease obligation of \$1.8 million. The lease obligation bears interest at 6.7% and is secured by the related equipment. The lease term expires August 2010 with a final payment obligation of \$0.7 million. Distributions to Unitholders are not permitted if the Fund is in default of such capital lease.

On September 5, 2007, Advantage assumed two capital lease obligations in the acquisition of Sound (note 2) resulting in the recognition of capital lease obligations of \$1.6 million. Both of the lease obligations bear interest at 5.6% and are secured by the related equipment. The lease terms expire December 2009 and April 2010 with a total final payment obligation of \$0.9 million.

The amortization of fixed assets subject to capital leases is recorded in depletion and depreciation expense.

## 5. 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. The details of the convertible debentures including fair market values initially assigned and issuance costs are as follows:

	10.00%	9.00%	8.25%	8.75%	
Trading symbol	AVN.DB	AVN.DBA	AVN.DBB	AVN.DBF	
Issue date	Oct. 18, 2002	July 8, 2003	Dec. 2, 2003	June 10, 2004	
Maturity date	Nov. 1, 2007	Aug. 1, 2008	Feb. 1, 2009	June 30, 2009	
Conversion price	\$ 13.30	\$ 17.00	\$ 16.50	\$ 34.67	
Liability component	\$ 52,722	\$ 28,662	\$ 56,802	\$ 48,700	
Equity component	2,278	1,338	3,198	11,408	
Gross proceeds	55,000	30,000	60,000	60,108	
Issuance costs	(2,495)	(1,444)	(2,588)	-	
Net proceeds	<b>\$ 52,505</b>	<b>\$ 28,556</b>	<b>\$ 57,412</b>	<b>\$ 60,108</b>	
	7.50%	6.50%	7.75%	8.00%	Total
Trading symbol	AVN.DBC	AVN.DBE	AVN.DBD	AVN.DBG	
Issue date	Sep. 15, 2004	May 18, 2005	Sep. 15, 2004	Nov. 13, 2006	
Maturity date	Oct. 1, 2009	June 30, 2010	Dec. 1, 2011	Dec. 31, 2011	
Conversion price	\$ 20.25	\$ 24.96	\$ 21.00	\$ 20.33	
Liability component	\$ 71,631	\$ 66,981	\$ 47,444	\$ 14,884	\$ 387,826
Equity component	3,369	2,971	2,556	26,561	53,679
Gross proceeds	75,000	69,952	50,000	41,445	441,505
Issuance costs	(3,190)	-	(2,190)	-	(11,907)
Net proceeds	<b>\$ 71,810</b>	<b>\$ 69,952</b>	<b>\$ 47,810</b>	<b>\$ 41,445</b>	<b>\$ 429,598</b>

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, 2006 and before November 1, 2007	\$1,025
9.00%	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
8.75%	After June 30, 2007 and on or before June 30, 2008	\$1,050
	After June 30, 2008 and before June 30, 2009	\$1,025
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
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
8.00%	After December 31, 2009 and on or before December 31, 2010	\$1,050
	After December 31, 2010 and before December 31, 2011	\$1,025

The balance of debentures outstanding at September 30, 2007 and changes in the liability and equity components during the nine months ended September 30, 2007 are as follows:

	10.00%	9.00%	8.25%	8.75%
Debentures outstanding	\$ 1,480	\$ 5,392	\$ 4,867	\$ 59,513
Liability component:				
Balance at Dec. 31, 2006	\$ 1,464	\$ 5,235	\$ 4,676	\$ -
Assumed on Sound acquisition	-	-	-	48,700
Accretion of discount	19	73	68	21
Converted to Trust Units	(5)	-	-	-
Balance at Sep. 30, 2007	\$ 1,478	\$ 5,308	\$ 4,744	\$ 48,721
Equity component:				
Balance at Dec. 31, 2006	\$ 59	\$ 229	\$ 248	\$ -
Assumed on Sound acquisition	-	-	-	11,408
Converted to Trust Units	-	-	-	-
Balance at Sep. 30, 2007	\$ 59	\$ 229	\$ 248	\$ 11,408

	7.50%	6.50%	7.75%	8.00%	Total
Debentures outstanding	\$ 52,268	\$ 69,952	\$ 46,766	\$ 41,035	\$ 281,273
Liability component:					
Balance at Dec. 31, 2006	\$ 49,782	\$ 67,361	\$ 43,765	\$ -	\$ 172,283
Assumed on Sound acquisition	-	-	-	14,884	63,584
Accretion of discount	665	546	446	10	1,848
Converted to Trust Units	-	-	-	-	(5)
Balance at Sep. 30, 2007	\$ 50,447	\$ 67,907	\$ 44,211	\$ 14,894	\$ 237,710
Equity component:					
Balance at Dec. 31, 2006	\$ 2,248	\$ 2,971	\$ 2,286	\$ -	\$ 8,041
Assumed on Sound acquisition	-	-	-	26,561	37,969
Converted to Trust Units	-	-	-	-	-
Balance at Sep. 30, 2007	\$ 2,248	\$ 2,971	\$ 2,286	\$ 26,561	\$ 46,010

Due to the acquisition of Sound (note 2), 8.75% and 8.00% convertible debentures were assumed by Advantage on September 5, 2007. As a result of the change in control of Sound, the Fund was required by the debenture indentures to make an offer to purchase all of the outstanding convertible debentures assumed from Sound at a price equal to 101% of the principal amount plus accrued and unpaid interest. On October 17, 2007, the expiry date of the offer, 911,709 Trust Units were issued and \$19.9 million in cash consideration was paid in exchange for \$29,665,000 8.75% convertible debentures and 2,220,289 Trust Units were issued in exchange for \$25,507,000 8.0% convertible debentures.

During the nine months ended September 30, 2007, \$5,000 debentures (September 30, 2006 - \$24,333,000) were converted resulting in the issuance of 375 Trust Units (September 30, 2006 - 1,286,901 Trust Units).

## 6. Bank Indebtedness

Advantage has a credit facility agreement with a syndicate of financial institutions which provides for a \$690 million extendible revolving loan facility and a \$20 million operating loan facility. The loan's interest rate is based on either prime, US base rate, LIBOR or bankers' acceptance rates, at the Fund's option, subject to certain basis point or stamping fee adjustments ranging from 0.00% to 1.25% 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 with the next renewal due in June 2008. Various borrowing options are available under the credit facilities, including prime rate-based advances, US base rate advances, US dollar LIBOR advances and bankers' acceptances loans. The credit facilities constitute a revolving facility for a 364 day term which is extendible annually for a further 364 day revolving period at the option of the syndicate. If not extended, the revolving credit facility is converted to a two year term facility with the first payment due one year and one day after commencement of the term. The credit facilities contain standard commercial covenants for facilities of this nature. The only financial covenant is a requirement for Advantage Oil & Gas Ltd. ("AOG") to maintain a minimum cash flow to interest expense ratio of 3.5:1, determined on a rolling four quarter basis. Breach of any covenant will result in an event of default in which case AOG has 20 days to remedy such default. If the default is not remedied or waived, and if required by the majority of lenders, the

administrative agent of the lenders has the option to declare all obligations of AOG under the credit facilities to be immediately due and payable without further demand, presentation, protest, or notice of any kind. Distributions by AOG to the Fund (and effectively by the Fund to Unitholders) are subordinated to the repayment of any amounts owing under the credit facilities. Distributions to Unitholders are not permitted if the Fund is in default of such credit facilities or if the amount of the Fund's outstanding indebtedness under such facilities exceeds the then existing current borrowing base. Interest payments under the debentures are also subordinated to indebtedness under the credit facilities and payments under the debentures are similarly restricted. For the nine months ended September 30, 2007, the effective interest rate on the outstanding amounts under the facility was approximately 5.6% (September 30, 2006 - 5.0%).

## 7. 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 \$217.5 million which will be incurred between 2007 to 2057. An inflation rate of 2% and a credit-adjusted risk-free rate of 7% were used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	September 30, 2007	December 31, 2006
Balance, beginning of period	\$ 34,324	\$ 21,263
Accretion expense	1,854	1,684
Assumed in Ketch acquisition	-	7,930
Assumed in Sound acquisition (note 2)	16,695	-
Liabilities incurred	5,699	9,421
Liabilities settled	(4,835)	(5,974)
Balance, end of period	<b>\$ 53,737</b>	<b>\$ 34,324</b>

## 8. Income Taxes

On June 12, 2007 the Federal government's bill regarding the taxation of distributions from trusts beginning January 1, 2011 received a third reading and on June 22, 2007 received Royal Assent, thus becoming fully enacted. As a result, a net expense of \$13.8 million was recognized in the future income tax provision for the nine months ended September 30, 2007.

## 9. Unitholders' Equity

### (a) Unitholders' Capital

#### (i) Authorized

Unlimited number of voting Trust Units

#### (ii) Issued

	Number of Units	Amount
Balance at December 31, 2006	105,390,470	\$ 1,618,025
Issued on conversion of debentures	375	5
Issued on exercise of Trust Unit rights	37,500	562
Distribution reinvestment plan	2,862,545	34,313
Issued for cash, net of costs	8,600,000	104,094
Issued for Sound acquisition, net of costs (note 2)	16,977,184	228,608
Management internalization forfeitures	(21,459)	(434)
	<b>133,846,615</b>	<b>\$ 1,985,173</b>
Management internalization escrowed Trust Units		(11,660)
Balance at September 30, 2007		<b>\$ 1,973,513</b>

On February 14, 2007 Advantage issued 7,800,000 Trust Units, plus an additional 800,000 Trust Units upon exercise of the Underwriters' over-allotment option on March 7, 2007, at \$12.80 per Trust Unit for approximate net proceeds of \$104.1 million (net of Underwriters' fees and other issue costs of \$6.0 million).

During the nine months ended September 30, 2007, 2,862,545 Trust Units were issued under the Premium Distribution<sup>(TM)</sup>, Distribution Reinvestment, and Optional Trust Unit Purchase Plan, generating \$34.3 million reinvested in the Fund.

On June 23, 2006, Advantage internalized the external management contract structure and eliminated all related fees for total original consideration of 1,933,208 Advantage Trust Units initially valued at \$39.1 million and subject to escrow provisions over a 3-year period, vesting one-third each year beginning June 23, 2007. The management internalization consideration is being deferred and amortized into income as management internalization expense over the specific vesting periods during which employee services are provided, including an estimate of future Trust Unit forfeitures. For the nine months ended September 30, 2007, a total of 21,459 Trust Units issued for the management internalization were forfeited and \$13.2 million has been recognized as management internalization expense. As at September 30, 2007, 1,197,077 Trust Units remain held in escrow.

On September 5, 2007, Advantage issued 16,977,184 Trust Units, valued at \$228.9 million, as partial consideration for the acquisition of Sound (note 2). Trust Unit issuance costs of \$0.2 million were incurred for the Sound acquisition.

**(b) Trust Units Rights Incentive Plan**

	Series B	
	Number	Price
Balance at December 31, 2006	187,500	\$ 10.97
Exercised	(37,500)	-
Reduction of exercise price	-	(1.35)
Balance at September 30, 2007	<b>150,000</b>	<b>\$ 9.62</b>
Expiration date	June 17, 2008	

**(c) Unit-Based Compensation**

Advantage’s current employee compensation includes a Restricted Trust Unit Plan (the “Plan”), as approved by the Unitholders on June 23, 2006, and Trust Units issuable for the retention of certain employees of the Fund. The purpose of the long-term compensation plans is to retain and attract employees, to reward and encourage performance, and to focus employees on operating and financial performance that result in lasting Unitholder return.

The Plan authorizes the Board of Directors to grant Restricted Trust Units (“RTUs”) to directors, officers, or employees of the Fund. The number of RTUs granted is based on the Fund’s Trust Unit return for a calendar year and compared to a peer group approved by the Board of Directors. The Trust Unit return is calculated at the end of the year and is primarily based on the year-over-year change in the Trust Unit price plus distributions. The RTU grants vest one third immediately on grant date, with the remaining two thirds vesting evenly on the following two yearly anniversary dates. The holders of RTUs may elect to receive cash upon vesting in lieu of the number of Trust Units to be issued, subject to consent of the Fund. Compensation cost related to the Plan is based on the “fair value” of the RTUs at the grant date and is recognized as compensation expense over the service period. This valuation incorporates the period end Trust Unit price, the estimated number of RTUs to vest, and certain management estimates. The maximum fair value of RTUs granted in any one calendar year is limited to 175% of the base salaries of those individuals participating in the Plan for such period. No RTUs have been granted under the Plan at this time and accordingly, no compensation expense relating to the RTUs has been recognized in the interim financial statements. Once the calendar year is completed and the final Trust Unit return is calculated for the return period, RTUs may be granted and consequently, compensation expense may be recognized at that time. As the Fund did not meet the 2006 grant thresholds, there was no RTU grant made for the 2006 year.

For the nine months ended September 30, 2007, the Fund has accrued unit-based compensation expense of \$0.8 million and has capitalized \$0.3 million related to Trust Units issuable for the retention of certain employees of the Fund.

#### (d) Net Income (Loss) per Trust Unit

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

	Three months ended Sep. 30, 2007	Three months ended Sep. 30, 2006	Nine months ended Sep. 30, 2007	Nine months ended Sep. 30, 2006
Income (loss) available to Unitholders				
Basic	\$ (26,202)	\$ 1,209	\$ (21,330)	\$ 41,078
Diluted	\$ (26,202)	\$ 1,209	\$ (21,330)	\$ 41,078
Weighted average Trust Units outstanding				
Basic	120,079,919	98,780,595	114,131,771	73,544,345
Trust Units Rights Incentive Plan – Series A	-	-	-	58,223
Trust Units Rights Incentive Plan – Series B	-	63,111	-	86,621
Management internalization	-	55,069	-	28,944
Diluted	120,079,919	98,898,775	114,131,771	73,718,133

The calculation of diluted net income (loss) per Trust Unit excludes all series of convertible debentures for the three and nine months ended September 30, 2007 and 2006 as well as all of the Series B Trust Unit Rights and Management Internalization escrowed Trust Units for the three and nine months ended September 30, 2007 as the impact would be anti-dilutive. All of the remaining Series A Trust Unit Rights were exercised July 7, 2006. Total weighted average Trust Units issuable in exchange for the convertible debentures and excluded from the diluted net income (loss) per Trust Unit calculation for the three and nine months ended September 30, 2007 were 9,389,620 and 8,690,007, respectively (September 30, 2006 – 8,337,771 and 6,793,997, respectively). As at September 30, 2007, the total convertible debentures outstanding were immediately convertible to 12,069,078 Trust Units (September 30, 2006 – 8,334,453).

#### 10. Accumulated Deficit

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

	September 30, 2007	December 31, 2006
Accumulated Income	\$ 206,193	\$ 227,523
Accumulated Distributions	(821,948)	(664,629)
Accumulated Deficit	\$ (615,755)	\$ (437,106)

For the nine months ended September 30, 2007, the Fund declared \$157.3 million in distributions, representing \$1.35 per distributable Trust Unit (nine months ended September 30, 2006 - \$158.5 million representing \$2.10 per distributable Trust Unit).

#### 11. Financial Instruments

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

Accounts receivable and deposits are classified as loans and receivables and measured at amortized cost. Accounts payable and accrued liabilities, distributions payable to Unitholders and bank indebtedness are all classified as other liabilities and similarly measured at amortized cost. As at September 30, 2007, there were no significant differences between the carrying amounts reported on the balance sheet and the estimated fair values of these financial instruments due to the short terms to maturity and the floating interest rate on the bank indebtedness.

The Fund has convertible debenture obligations outstanding, of which the liability component has been classified as other liabilities and measured at amortized cost. The convertible debentures have different fixed terms and interest rates (note 5) resulting in fair values that will vary over time as market conditions change. As at September 30, 2007, the estimated fair value of the total outstanding convertible debenture obligation was \$281.2 million (December 31, 2006 - \$180.0 million). The fair value

of the liability component of convertible debentures was determined based on a discounted cash flow model assuming no future conversions and continuation of current interest and principal payments. The Fund applied discount rates of between 7 and 8% considering current available market information, assumed credit adjustments, and various terms to maturity.

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

### **Credit Risk**

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

### **Liquidity Risk**

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

Advantage has several series of convertible debentures outstanding that mature from 2007 to 2011 (note 5). Interest payments are made semi-annually with excess funds from operating activities. As the debentures become due, the Fund can satisfy the obligations in cash or issue Trust Units at a price determined in the applicable debenture agreements. This settlement option allows the Fund to adequately manage liquidity, plan available cash resources and implement an optimal capital structure.

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

### **Interest Rate Risk**

The Fund is exposed to interest rate risk to the extent that bank indebtedness is at a floating rate of interest and the Fund's maximum exposure to interest rate risk is based on the effective interest rate and the current carrying value of the bank indebtedness. The Fund monitors the interest rate markets to ensure that appropriate steps can be taken if interest rate volatility compromises the Fund's cash flows. A 1% interest rate fluctuation for the nine months ended September 30, 2007 could potentially have impacted net income by approximately \$1.9 million for that period.

## Price and Currency Risk

Advantage's derivative assets and liabilities are subject to both price and currency risks as their fair values are based on assumptions including forward commodity prices and foreign exchange rates. The Fund enters derivative financial instruments to manage commodity price risk exposure relative to actual commodity production and does not utilize derivative instruments for speculative purposes. Changes in the price assumptions can have a significant effect on the fair value of the derivative assets and liabilities and thereby impact net income. It is estimated that a 10% change in the forward natural gas prices used to calculate the fair value of the natural gas derivatives at September 30, 2007 could impact net income by approximately \$2.2 million for the nine months ended September 30, 2007. As well, a change of 10% in the forward crude oil prices used to calculate the fair value of the crude oil derivatives at September 30, 2007 could impact net income by \$0.9 million for the nine months ended September 30, 2007. A change of 10% in the forward power prices used to calculate the fair value of the power derivatives at September 30, 2007 could impact net income by \$0.2 million for the nine months ended September 30, 2007. A similar change in the currency rate assumption underlying the derivatives fair value does not have a material impact on net income.

As at September 30, 2007 the Fund had the following derivatives in place:

Description of Derivative	Term	Volume	Average Price
<b>Natural gas - AECO</b>			
Fixed price	April 2007 to October 2007	9,478 mcf/d	Cdn\$7.16/mcf
Fixed price	April 2007 to October 2007	9,478 mcf/d	Cdn\$7.55/mcf
Fixed price	November 2007 to March 2008	7,109 mcf/d	Cdn\$9.54/mcf
Collar	March 2007 to December 2007	9,478 mcf/d	Floor Cdn\$7.91/mcf Ceiling Cdn\$9.50/mcf
Collar	May 2007 to December 2007	4,739 mcf/d	Floor Cdn\$7.91/mcf Ceiling Cdn\$9.50/mcf
Collar	November 2007 to March 2008	9,478 mcf/d	Floor Cdn\$8.44/mcf Ceiling Cdn\$10.29/mcf
Collar	November 2007 to March 2008	7,109 mcf/d	Floor Cdn\$8.70/mcf Ceiling Cdn\$10.71/mcf
<b>Crude oil - WTI</b>			
Collar	January 2007 to December 2007	500 bbls/d	Floor US\$70.00/bbl Ceiling US\$74.30/bbl
Collar	March 2007 to December 2007	1,000 bbls/d	Floor US\$57.00/bbl Ceiling US\$70.00/bbl
Collar	April 2007 to December 2007	500 bbls/d	Floor US\$60.00/bbl Ceiling US\$71.50/bbl
<b>Electricity – Alberta Pool Price</b>			
Fixed price	April 2006 to December 2007	0.5 MW	Cdn\$60.79/MWh
Fixed price	January 2007 to December 2007	3.0 MW	Cdn\$56.00/MWh
Fixed price	January 2008 to December 2008	3.0 MW	Cdn\$54.00/MWh

As at September 30, 2007 the fair value of the derivatives outstanding resulted in an asset of approximately \$12,881,000 (December 31, 2006 – \$10,433,000) and a liability of approximately \$1,607,000 (December 31, 2006 – nil). For the nine months ended September 30, 2007, \$1,956,000 was recognized in income as an unrealized derivative loss (September 30, 2006 - \$14,257,000 unrealized derivative gain) and \$13,384,000 was recognized in income as a realized derivative gain (September 30, 2006 – \$118,000 realized derivative gain).

As a result of the Sound acquisition (note 2), the Fund assumed several derivatives, which had an estimated net fair market value of \$2,797,000 on closing.

In addition, the Fund has the following physical natural gas contracts in place that are not recognized on the balance sheet at fair value, but instead have gains and losses recognized in earnings as the contracts settle:

Description of Physical Contract	Term	Volume	Average Price	
<b>Natural gas - AECO</b>				
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
Collar	April 2007 to October 2007	9,478 mcf/d	Floor	Cdn\$6.33/mcf
			Ceiling	Cdn\$7.20/mcf

## 12. Commitments

Advantage has several lease commitments relating to office buildings. As a result of the Sound acquisition (note 2), Advantage assumed one office lease and has renegotiated additional leases to accommodate the growth of the Fund. The estimated annual minimum operating lease rental payments for the buildings are as follows:

2007	\$ 1,187
2008	6,283
2009	6,710
2010	6,725
2011	4,280
2012 & thereafter	4,868
	<b>\$30,053</b>

## Directors

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

<sup>(1)</sup> Member of Audit Committee

<sup>(2)</sup> Member of Reserve Evaluation Committee

<sup>(3)</sup> Member of Human Resources, Compensation & Corporate Governance Committee

## Officers

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

## Corporate Secretary

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

## Operating Company

Advantage Oil & Gas Ltd.

## Auditors

PricewaterhouseCoopers LLP

## Bankers

The Bank of Nova Scotia  
National Bank of Canada  
Bank of Montreal  
Royal Bank of Canada  
Canadian Imperial Bank of Commerce  
Union Bank of California, Canada Branch  
Société Générale, 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  
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

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## Transfer Agent

Computershare Trust Company of Canada

## Contact Us

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## 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  
8.75% Convertible Debentures: AVN.DBF  
8% Convertible Debentures: AVN.DBG

## New York Stock Exchange Trading Symbol

Trust Units: AAV