2010 Annual Report

	Year ended December 31				
	2010	2009	2008	2007	2006
Financial ($000, except as otherwise indicated)					
Revenue before royalties (1)	**364,501**	429,492	741,962	557,358	419,727
per share (2)	**2.23**	2.80	5.32	4.66	5.18
per boe	**41.38**	43.70	62.82	50.97	48.41
Funds from operations	**175,139**	197,675	361,087	271,143	214,758
per share (2)	**1.07**	1.29	2.59	2.22	2.65
per boe	**19.88**	20.11	30.58	24.79	24.78
Net income (loss)	**(44,208)**	(86,426)	(20,577)	(7,535)	49,814
per share (2)	**(0.27)**	(0.56)	(0.15)	(0.06)	0.62
Expenditures on fixed assets	**223,308**	169,066	255,591	148,725	159,487
Working capital deficit(3)	**64,452**	48,809	62,959	22,754	41,191
Bank indebtedness	**290,657**	250,262	587,404	547,426	410,574
Convertible debentures (face value)	**148,544**	218,471	219,195	224,612	180,730
Shares outstanding at end of year (000)	**164,092**	162,746	142,825	138,269	105,390
Basic weighted average shares (000)	**163,467**	153,140	139,483	119,604	80,958
Operating					
Daily Production					
Natural gas (mcf/d)	**101,562**	104,527	122,878	116,998	94,074
Crude oil and NGLs (bbls/d)	**7,202**	9,508	11,793	10,462	8,075
Total boe/d @ 6:1	**24,129**	26,929	32,273	29,962	23,754
Average pricing (including hedging)					
Natural gas ($/mcf)	**5.45**	6.24	8.14	7.21	6.86
Crude oil and NGLs ($/bbl)	**61.85**	55.16	87.08	65.38	62.44
Proved plus probable reserves					
Natural gas (bcf)	**1,245.2**	1,140.2	704.3	546.4	442.7
Crude oil & NGLs (mbbls)	**36,760**	43,266	57,386	61,131	47,524
Total mboe	**244,291**	233,292	174,767	152,203	121,317
Reserve life index (years) (4)	**27.5**	28.2	15.2	12.1	11.4

(1) includes realized derivative gains and losses

(2) based on basic weighted average shares outstanding

(3) 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

(4) based on fourth quarter average production rates

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ANNUAL GENERAL MEETING

Advantage Oil & Gas Ltd. is pleased to invite its shareholders and other interested parties to its Annual General Meeting to be held in the Lecture Theatre Room at the Metropolitan Centre, 333 – 4th Avenue SW, Calgary, Alberta on Wednesday, May 25, 2011 commencing at 10:00 a.m. We ask those shareholders unable to attend the meeting to please complete and return your Form of Proxy.

MESSAGE TO SHAREHOLDERS

Production Growth, Hedging and Reduced Costs Deliver Solid Financial and Operating Results

- Production for the fourth quarter of 2010 averaged 24,308 boe/d, an increase of 18% as compared to the fourth quarter of 2009, after adjusting for non-core asset dispositions. Advantage's daily production for 2010 exited at approximately 25,000 boe/d, exceeding our guidance of 24,000 boe/d due to stronger than expected well performance at Glacier. The Glacier gas plant expansion is now completed with production exceeding 100 mmcf/d and corporate production at approximately 30,000 boe/d.
- Funds from operations for the fourth quarter of 2010 increased 6% to $40.7 million or $0.25 per share, as compared to the $38.5 million or $0.23 per share for the third quarter of 2010. For the year ended December 31, 2010, funds from operations was $175.1 million or $1.07 per share, a decrease from $197.7 million or $1.29 per share during 2009 attributed primarily to asset dispositions completed during the last two years.
- For the three months and year ended December 31, 2010, our hedging program contributed a net gain of $9.8 million and $45.1 million to funds from operations, respectively. Advantage's hedging program has helped to stabilize and enhance our cash flow for capital reinvestment requirements.
- Operating costs for the fourth quarter of 2010 were $10.64/boe, a decrease of 3% as compared to $11.01/boe during the fourth quarter of 2009. Operating costs per boe for 2010 was $10.66/boe, a decrease of 12% as compared to $12.11/boe during 2009. Operating costs per boe have decreased considerably over the last several years as a result of the increasing contribution of low cost production from Glacier, the disposition of higher cost non-core assets, and the continued optimization of our other properties. We anticipate corporate operating costs will decline further in 2011 as a result of increased production at Glacier.
- The royalty rate for 2010 as a percentage of revenue was 14.0% as compared to 14.3% in 2009. For the fourth quarter of 2010, Advantage's royalty rate was 12.2% as compared to 13.8% for the fourth quarter of 2009. We anticipate that our corporate royalty rate will decline further due to increased production from Glacier where the effective royalty rate for a new Glacier Montney well is anticipated to be approximately 5% over the life of the well.
- Significant reductions in the average bank indebtedness during the last twelve months have led to a 31% decrease in total interest expense as compared to the prior year.
- As at December 31, 2010, Advantage's bank debt was $290.7 million on a credit facility of $525 million with an unutilized capacity of approximately $231.4 million. A total of $148.5 million of convertible debentures remain outstanding of which $62.3 million will mature in December 2011 and the balance of $86.2 million will mature in January 2015.
- Capital expenditures during the fourth quarter of 2010 amounted to $68.9 million for a total of $223.3 million for the year ended December 31, 2010. Approximately 86% of our 2010 capital program has been invested at Glacier where we successfully completed Phase II of our development program in the second quarter of 2010. The second half 2010 capital spending has been focused on our Phase III development program at Glacier which consisted of drilling 28 net (28 gross) horizontal wells and expanding our Glacier gas plant and gathering system capacity to 100 mmcf/d.
- Additional capital activities during 2010 included 3 net (3 gross) oil wells at Eyehill, 2.8 net (3 gross) oil and gas wells at Nevis, and 2.1 net (3 gross) oils wells at Sunset.

Glacier Production Exceeding 100 mmcf/d with Additional 100 mmcf/d of Production Capacity

- Production performance at Glacier has been higher than anticipated with natural gas production averaging 53.3 mmcf/d for the fourth quarter of 2010 and exiting 2010 at 60 mmcf/d (10,000 boe/d), which exceeded our guidance.
- Phase III activities at Glacier are now substantially complete and production is exceeding 100 mmcf/d, which has progressed ahead of schedule and on-budget.
- An additional 100 mmcf/d (16,667 boe/d) of production capacity currently exists and additional wells will be brought on-stream as required to offset declines and maintain production.
- Optimization of drilling and completion practices combined with improved geological knowledge at Glacier has significantly increased the horizontal well test rates through each of our development phases. The average test rate of the Upper Montney wells for Phase III was 8.4 mmcf/d with an average of 13 fracs per well, surpassing our expectations.

Impressive Glacier Netbacks Enhanced by Low Cost Structure

- Operating costs at Glacier are forecast to decrease from the $2.85/boe ($0.48/mcf) during the fourth quarter of 2010 to $1.80/boe ($0.30/mcf) at 100 mmcf/d due to efficiencies created by increasing the production rate through Advantage's 100% owned Glacier gas plant and the utilization of multi-well production well pads on our contiguous land block which simplifies field operations.
- All Montney horizontal wells drilled at Glacier after May 1, 2010 qualify for a royalty incentive of $2.7 to $3.4 million based on a typical Glacier Montney horizontal well (total length of 4,200 to 4,500 metres). As a result, the effective royalty rate for a new Glacier Montney well is anticipated to be approximately 5% over the life of the well.
- The attractive royalty rates and low operating costs significantly enhances the netback and drilling economics of all of our Glacier Montney drilling locations as indicated below:

	$/mcf	$/mcf	
Revenue (realized price)	$4.00	$5.00	Operating netbacks exceed 87% of revenue
Royalties (5% royalty rate)	(0.20)	(0.25)	
Operating costs	(0.30)	(0.30)	
Netback*	$3.50	$4.45	
Well Drilling Economics pre-tax rate of return *	>39%	>66%	

*Note: assumes 4.5 mmcf/d IP, 5 Bcf reserves & $5.5 million per well with total Glacier production of 100 mmcf/d

- Based on netbacks of $3.50/mcf and $4.45/mcf, annualized cash flows are projected to be approximately $128 million and $162 million respectively, which are in excess of estimated capital requirements to maintain a 100 mmcf/d production rate at Glacier.
- In summary, Glacier is a unique asset which provides the opportunity for Advantage to develop a large, scalable natural gas resource play which contains decades of drilling inventory and with one of the lowest cost structures in the Western Canadian Sedimentary Basin.

Commodity Hedging Program

- Advantage's hedging program includes 25% of our forecast net natural gas production for 2011 hedged at an average price of Cdn$6.30 AECO per mcf and 34% of forecast net crude oil production for 2011 at Cdn$88.90 per bbl.
- Additional details on our hedging program are available at our website at www.advantageog.com.

Creation of Longview Oil Corp.

- On March 7, 2011, Advantage announced that Longview Oil Corp. ("Longview"), a wholly-owned subsidiary of the Corporation, filed a preliminary prospectus on March 4, 2011 for an initial public offering (the "Offering"), which is targeted to raise gross proceeds of $150 million prior to an over-allotment option of up to 15% of the base offering size, exercisable 30 days following the closing of the Offering. The closing of the Offering is expected to occur in April, 2011. Concurrent with closing of the Offering, Longview will purchase certain oil-weighted assets from Advantage with fourth quarter 2010 average production of 6,220 boe/d (74% oil & NGLs), proved reserves of 20.1 mmboe and proved plus probable reserves of 36.9 mmboe.
- Advantage will receive consideration comprised of the net proceeds of the Offering, common shares of Longview and proceeds of $100 million to be drawn from an independent Longview credit facility to be established at closing. Advantage plans to use the cash proceeds from the transaction to reduce outstanding bank indebtedness. Advantage will retain an equity ownership interest of approximately 68% of the common shares of Longview (approximately 63% if the over-allotment option is exercised in full). The transaction is conditional upon customary industry conditions including the approval of the Board of Directors of Advantage. As a result of the successful completion of the transaction, historical financial and operating performance as well as forward-looking information may not be indicative of actual future performance.
- For further details, please refer to the press release issued by Advantage on March 7, 2011 and the preliminary prospectus filed by Longview on March 4, 2011, which are available at www.sedar.com and Advantage's website www.advantageog.com.

Looking Forward

- Drilling results at our cornerstone Glacier property have demonstrated that our Montney development is among the top tier natural gas resource developments in North America. The attractive cost structure at Glacier which includes low operating costs and low royalty rates combined with a multi-decade drilling inventory provides a strong foundation to drive future development beyond 100 mmcf/d of production.
- With the expansion of Glacier to 100 mmcf/d now completed, a review of well performance, facility capacity and actual costs will be undertaken by Advantage to assess the timing and capital requirements for the next phase of growth at Glacier.
- Advantage will provide additional corporate guidance and communicate future development plans on or about mid-year 2011.

Reserves

Advantage engaged our independent qualified reserves evaluator Sproule Associates Ltd. ("Sproule") to update the reserves analysis for the Company in accordance with National Instrument 51-101 and the COGE Handbook.

Reserves and production information included herein is stated on a Company Interest basis (before royalty burdens and including royalty interests receivable) unless noted otherwise. This report contains several cautionary statements that are specifically required by NI 51-101. In addition to the detailed information disclosed in this press release, more detailed information on a net interest basis (after royalty burdens and including royalty interests) and on a gross interest basis (before royalty burdens and excluding royalty interests) will be included in Advantage's Annual Information Form ("AIF") and will be available at www.advantageog.com and www.sedar.com in the coming weeks.

Highlights - Company Interest Reserves (Working Interests plus Royalty Interests Receivable)

	December 31, 2010	December 31, 2009
Proved plus probable reserves (mboe)	244,291	233,292
Present Value of 2P reserves discounted at 10%, before tax ($000)(1)	$2,515,972	$2,773,428
Net Asset Value per Share discounted at 10%, before tax (2)	$13.63	$15.07
Reserve Life Index (proved plus probable - years) (3)	27.5	28.2
Reserves per Share (proved plus probable) (2)	1.48	1.43
Bank debt per boe of reserves (4)	$1.18	$1.06
Convertible debentures per boe of reserves (4)	$0.61	$0.94

(1) Assumes that development of each property will occur, without regard to the likely availability to the Company of funding required for that development.

(2) Based on 164.092 million Shares outstanding at December 31, 2010, and 162.746 million Shares outstanding as December 31, 2009.

(3) Based on Q4 average production and company interest reserves.

(4) Using boe's may be misleading, particularly if used in isolation. In accordance with NI 51-101, a boe conversion ratio for natural gas of 6 mcf: 1 bbl has been used which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Company Interest Reserves (Working Interests plus Royalty Interests Receivable)

Summary as at December 31, 2010

	Light & Medium Oil (mbbl)	Heavy Oil (mbbl)	Natural Gas Liquids (mbbl)	Natural Gas (mmcf)	Oil Equivalent (mboe)
Proved					
Developed Producing	10,540	1,447	4,464	208,206	51,152
Developed Non-producing	751	150	129	28,672	5,809
Undeveloped	2,795	95	621	499,788	86,809
Total Proved	**14,086**	**1,692**	**5,214**	**736,666**	**143,770**
Probable	10,289	2,853	2,626	508,519	100,521
Total Proved + Probable	**24,375**	**4,545**	**7,840**	**1,245,185**	**244,291**

Gross Working Interest Reserves (Working Interest only)

Summary as at December 31, 2010

	Light & Medium Oil (mbbl)	Heavy Oil (mbbl)	Natural Gas Liquids (mbbl)	Natural Gas (mmcf)	Oil Equivalent (mboe)
Proved					
Developed Producing	10,319	1,417	4,432	207,695	50,783
Developed Non-producing	749	147	129	28,562	5,785
Undeveloped	2,795	90	621	499,783	86,803
Total Proved	**13,862**	**1,654**	**5,181**	**736,040**	**143,371**
Probable	10,182	2,833	2,615	507,929	100,285
Total Proved + Probable	**24,044**	**4,487**	**7,796**	**1,243,969**	**243,656**

Present Value of Future Net Revenue using Sproule price and cost forecasts [(1)(2)] ($000)

	Before Income Taxes Discounted at		
	0%	10%	15%
Proved			
Developed Producing	$ 1,408,498	$ 819,727	$ 690,677
Developed Non-producing	158,270	89,107	73,543
Undeveloped	1,653,020	525,190	304,641
Total Proved	**3,219,789**	**1,434,024**	**1,068,861**
Probable	3,410,239	1,081,948	741,772
Total Proved + Probable	**$ 6,630,028**	**$ 2,515,972**	**$ 1,810,633**

(1) Advantage's crude oil, natural gas and natural gas liquid reserves were evaluated using Sproule's product price forecast effective December 31, 2010 prior to the provision for income taxes, interests, debt services charges and general and administrative expenses. It should not be assumed that the discounted future revenue estimated by Sproule represents the fair market value of the reserves.

(2) Assumes that development of each property will occur, without regard to the likely availability to the Company of funding required for that development.

Sproule Price Forecasts

The present value of future net revenue at December 31, 2010 was based upon crude oil and natural gas pricing assumptions prepared by Sproule effective December 31, 2010. These forecasts are adjusted for reserve quality, transportation charges and the provision of any applicable sales contracts. The price assumptions used over the next seven years are summarized in the table below:

Year	WTI Crude Oil ($US/bbl)	Edmonton Light Crude Oil ($Cdn/bbl)	Alberta AECO-C Natural Gas ($Cdn/mmbtu)	Henry Hub Natural Gas ($US/mmbtu)	Exchange Rate ($US/$Cdn)
2011	88.40	93.08	4.04	4.44	0.932
2012	89.14	93.85	4.66	5.01	0.932
2013	88.77	93.43	4.99	5.32	0.932
2014	88.88	93.54	6.58	6.80	0.932
2015	90.22	94.95	6.69	6.90	0.932
2016	91.57	96.38	6.80	7.00	0.932
2017	92.94	97.84	6.91	7.11	0.932

Net Asset Value using Sproule price and cost forecasts (Before Income Taxes)

The following net asset value ("NAV") table shows what is normally referred to as a "produce-out" NAV calculation under which the current value of the Company's reserves would be produced at forecast future prices and costs. The value is a snapshot in time and is based on various assumptions including commodity prices and foreign exchange rates that vary over time.

	Before Income Taxes Discounted at		
($000, except per Share amounts)	0%	10%	15%
Net asset value per Share [1] - December 31, 2009	$ 45.55	$ 15.07	$ 10.09
Present value proved and probable reserves	$ 6,630,028	$ 2,515,972	$ 1,810,633
Undeveloped acreage and seismic [2]	199,800	199,800	199,800
Working capital (deficit) and other	(41,839)	(41,839)	(41,839)
Convertible debentures	(148,544)	(148,544)	(148,544)
Bank debt	(288,852)	(288,852)	(288,852)
Net asset value - December 31, 2010	$ 6,350,593	$ 2,236,537	$ 1,531,198
Net asset value per Share [1] - December 31, 2010	$ 38.70	$ 13.63	$ 9.33

[1] Based on 164.092 million Shares outstanding at December 31, 2010, and 162.746 million Shares outstanding at December 31, 2009.
[2] Internal estimate

Gross Working Interest Reserves Reconciliation

Proved	Light & Medium Oil (mbbl)	Heavy Oil (mbbl)	Natural Gas Liquids (mbbl)	Natural Gas (mmcf)	Oil Equivalent (mboe)
Opening balance Dec. 31, 2009	15,602	2,466	5,266	507,206	107,868
Extensions	345	3	42	141,744	24,014
Improved recovery	-	-	-	-	-
Infill Drilling	176	233	91	5,916	1,485
Discoveries	-	-	-	-	-
Economic factors	(93)	(8)	(67)	(40,732)	(6,957)
Technical revisions	(430)	(49)	678	178,521	29,952
Acquisitions	-	-	16	213	52
Dispositions	(167)	(709)	(68)	(19,758)	(4,237)
Production	(1,570)	(282)	(776)	(37,070)	(8,807)
Closing balance at Dec. 31, 2010	13,862	1,654	5,181	736,040	143,371

Proved + Probable	Light & Medium Oil (mbbl)	Heavy Oil (mbbl)	Natural Gas Liquids (mbbl)	Natural Gas (mmcf)	Oil Equivalent (mboe)
Opening balance Dec. 31, 2009	29,125	5,836	7,749	1,137,322	232,264
Extensions	795	4	46	209,799	35,811
Improved recovery	-	-	-	-	-
Infill Drilling	230	-	138	7,959	1,694
Discoveries	-	-	-	-	-
Economic factors	(154)	(13)	(89)	(33,158)	(5,782)
Technical revisions	(4,121)	(41)	802	(11,766)	(5,321)
Acquisitions	-	-	25	331	80
Dispositions	(260)	(1,017)	(99)	(29,448)	(6,284)
Production	(1,570)	(282)	(776)	(37,070)	(8,807)
Closing balance at Dec. 31, 2010	24,044	4,487	7,796	1,243,969	243,656

Finding, Development & Acquisitions Costs ("FD&A") [(1)(2)(3)]

2010 FD&A Costs – Gross Working Interest Reserves excluding Future Development Capital

	Proved	Proved + Probable
Capital expenditures ($000)	$ 223,308	$ 223,308
Acquisitions net of dispositions ($000)	(69,676)	(69,676)
Total capital ($000)	$ 153,632	$ 153,632
Total mboe, end of year	143,371	243,656
Total mboe, beginning of year	107,868	232,264
Production, mboe	8,807	8,807
Reserve additions, mboe	44,310	20,199
FD&A costs ($/boe)		
2010	$ 3.47	$ 7.61
2009	$ (4.55)	$ (1.08)
Three year average	$ 4.32	$ 2.78
F&D costs ($/boe)		
2010	$ 4.60	$ 8.46
2009	$ 10.46	$ 2.49
Three year average	$ 6.42	$ 4.17

NI 51-101
2010 FD&A Costs – Gross Working Interest Reserves including Future Development Capital

	Proved	Proved + Probable
Capital expenditures ($000)	$ 223,308	$ 223,308
Alberta Drilling Incentives ($000)	(3,258)	(3,258)
Acquisitions net of dispositions ($000)	(69,676)	(69,676)
Net change in Future Development Capital ($000)	339,907	69,493
Total capital ($000)	$ 490,281	$ 219,867
Reserve additions, mboe	44,310	20,199
FD&A costs ($/boe)		
2010	$ 11.06	$ 10.89
2009	$ 22.50	$ 10.14
Three year average	$ 17.13	$ 13.24
F&D costs ($/boe)		
2010	$ 11.55	$ 10.97
2009	$ 10.58	$ 9.82
Three year average	$ 16.43	$ 12.43

(1) Under NI 51-101, the methodology to be used to calculate FD&A costs includes incorporating changes in future development capital ("FDC") required to bring the proved undeveloped and probable reserves to production. For continuity, Advantage has presented herein FD&A costs calculated both excluding and including FDC.

(2) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year. Changes in forecast FDC occur annually as a result of development activities, acquisition and disposition activities and capital cost estimates that reflect Sproule's best estimate of what it will cost to bring the proved undeveloped and probable reserves on production.

(3) In all cases, the FD&A number is calculated by dividing the identified capital expenditures by the applicable reserve additions. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 MCF:1 BBL is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A"), dated as of March 22, 2011, provides a detailed explanation of the financial and operating results of Advantage Oil & Gas Ltd. ("Advantage", the "Corporation", "us", "we" or "our") for the three months and year ended December 31, 2010 and should be read in conjunction with the audited consolidated financial statements. 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, based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boes maybe misleading, particularly if used in isolation.

Forward-Looking Information

This MD&A contains certain forward-looking statements, which are based on our current internal expectations, estimates, projections, assumptions and beliefs. 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 or related expressions. These statements are not guarantees of future performance.

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to spending and capital budgets; capital expenditure programs; the focus of capital expenditures; availability of funds for our capital program; effect of asset dispositions in 2010 on financial performance; effect on production once current facilities and infrastructure expansion work in Glacier, Alberta have been completed; expected production from Phase III of the Glacier development project; our future operating and financial results; supply and demand for oil and natural gas; effect of natural gas prices on drilling activity and supply levels; projections of market prices and costs; effect of natural gas and oil prices on the Corporation's financial performance; the size of, and future net revenues from, reserves; the performance characteristics of our properties; effect on revenue of the Corporation's derivative and hedging activities; the Corporation's hedging strategy; effect of the Corporation's risk management activities; projected royalty rates; average royalty rates; plans to improve operating cost structure and effect on corporate operating costs; the amount of general and administrative expenses; terms of the Corporation's credit facility; estimated tax pools; terms of the transaction with Longview Oil Corp., including the timing of completion thereof; and the effect of implementation of International Financial Reporting Standards on financial results and the timing of implementation. In addition, statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

These forward-looking statements involve substantial known and unknown risks and uncertainties, many of which are beyond our control, including changes in general economic, market and business conditions; stock market volatility; changes to legislation and regulations and how they are interpreted and enforced; changes to investment eligibility or investment criteria; our ability to comply with current and future environmental or other laws; actions by governmental or regulatory authorities including increasing taxes, changes in investment or other regulations; changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry; the effect of acquisitions; our success at acquisition, exploitation and development of reserves; unexpected drilling results, changes in commodity prices, currency exchange rates, capital expenditures, reserves or reserves estimates and debt service requirements; the occurrence of unexpected events involved in the exploration for, and the operation and development of, oil and gas properties; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; changes or fluctuations in production levels; competition from other producers; the lack of availability of qualified personnel or management; individual well productivity; ability to access sufficient capital from internal and external sources; credit risk; failure to complete the transaction with Longview Oil Corp.; and failure to receive all required regulatory approvals for the transaction with Longview Oil Corp. Many of these risks and uncertainties are described in the Corporation's Annual Information Form which is available at www.sedar.com and www.advantageog.com. Readers are also referred to risk factors described in other documents Advantage files with Canadian securities authorities.

With respect to forward-looking statements contained in this MD&A, Advantage has made assumptions regarding: conditions in general economic and financial markets; effects of regulation by governmental agencies; current commodity prices and royalty regimes; future exchange rates; royalty rates; future operating costs; availability of skilled labour; availability of drilling and related equipment; timing and amount of capital expenditures; the impact of increasing competition; and receipt of all required regulatory approvals for the transaction with Longview Oil Corp.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders with a more complete perspective on Advantage's future operations and such information may not be appropriate for other purposes. Advantage's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Advantage will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this MD&A and Advantage disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

This MD&A discusses historical financial and operating performance as well as forward-looking information for the Corporation excluding any potential impacts that may occur due to the successful completion of the transaction with Longview Oil Corp. (see section "Creation of Longview Oil Corp."). As a result, historical financial and operating performance as well as forward-looking information may not be indicative of actual future performance.

Non-GAAP Measures

The Corporation discloses several financial measures in the MD&A that do not have any standardized meaning prescribed under GAAP. These financial measures include funds from operations and cash netbacks. Management believes that these financial measures are useful supplemental information to analyze operating performance and provide an indication of the results generated by the Corporation'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. 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 December 31			Year ended December 31		
($000)	**2010**	**2009**	**% change**	**2010**	**2009**	**% change**
Cash provided by operating activities	$ 55,268	$ 39,383	40 %	$ 202,494	$ 170,889	18 %
Expenditures on asset retirement	1,811	947	91 %	6,275	5,437	15 %
Changes in non-cash working capital	(16,335)	7,951	(305) %	(33,630)	21,349	(258) %
Funds from operations	**$ 40,744**	**$ 48,281**	**(16) %**	**$ 175,139**	**$ 197,675**	**(11) %**

Overview

	Three months ended December 31			Year ended December 31		
	2010	2009	% change	2010	2009	% change
Cash provided by operating activities ($000)	$ 55,268	$ 39,383	40 %	$ 202,494	$ 170,889	18 %
Funds from operations ($000)	$ 40,744	$ 48,281	(16) %	$ 175,139	$ 197,675	(11) %
per share [(1)]	$ 0.25	$ 0.29	(14) %	$ 1.07	$ 1.29	(17) %
per boe	$ 18.21	$ 23.24	(22) %	$ 19.88	$ 20.11	(1) %

(1) Based on basic weighted average shares outstanding.

Our financial and operating results during 2009 and 2010 have been impacted by dispositions completed during these years. In July 2009 we closed two major asset dispositions for net proceeds of $242.1 million representing production of approximately 8,100 boe/d. On May 31 and June 3, 2010, we closed two additional asset dispositions of non-core natural gas weighted properties for net proceeds of $66.5 million and representing production of approximately 1,700 boe/d. The net proceeds from the various dispositions were utilized to reduce outstanding debt. As a result of the dispositions, total funds from operations decreased for the three months and year ended December 31, 2010 compared to the same periods of 2009 with all revenues and expenses generally impacted.

For the year ended December 31, 2010 we continued to realize significant gains on derivatives which amounted to $45.1 million that has helped to offset the continued weak natural gas prices and positively impact funds from operations. Hedging gains in 2010 were lower than 2009 as we had a lower percentage of natural gas production hedged at lower average prices. Funds from operations has also benefited during this year from higher crude oil prices and continued cost reductions, such as operating costs and interest expense. Unfortunately, natural gas prices still remain weak and pose a continuing challenge to the entire natural gas industry. When comparing the current quarter to the third quarter of 2010, our funds from operations per boe increased 6% to $18.21/boe from $17.19/boe as both production and crude oil prices increased, partially offset by the impact of lower natural gas prices. Funds from operations per share decreased from 2009 due to the decrease in total funds from operations and the increase in shares outstanding attributable to 17 million shares issued in July 2009 as a result of an equity offering. Cash provided by operating activities has increased during 2010 as compared to the prior year due to the decrease in funds from operations being more than offset by increases in working capital deficit.

As a result of asset dispositions completed in 2009 and 2010 and changes in commodity prices, historical financial and operating performance may not be indicative of actual future performance.

The primary factor that causes significant variability of the Corporation'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.

Revenue

	Three months ended December 31			Year ended December 31		
($000)	**2010**	**2009**	**% change**	**2010**	**2009**	**% change**
Natural gas excluding hedging	$ 34,081	$ 33,281	2 %	$ 146,572	$ 154,889	(5) %
Realized hedging gains	12,871	20,325	(37) %	55,360	83,162	(33) %
Natural gas including hedging	$ 46,952	$ 53,606	(12) %	$ 201,932	$ 238,051	(15) %
Crude oil and NGLs excluding hedging	$ 42,140	$ 49,229	(14) %	$ 172,796	$ 188,116	(8) %
Realized hedging gains (losses)	(3,080)	(4,053)	(24) %	(10,227)	3,325	(408) %
Crude oil and NGLs including hedging	$ 39,060	$ 45,176	(14) %	$ 162,569	$ 191,441	(15) %
Total revenue [(1)]	**$ 86,012**	**$ 98,782**	**(13) %**	**$ 364,501**	**$ 429,492**	**(15) %**

(1) Total revenue excludes unrealized derivative gains and losses.

Revenue, excluding hedging, was negatively impacted for the three months and year ended December 31, 2010, as compared to 2009, primarily due to lower production attributable to our asset dispositions that closed in the third quarter of 2009 and the second quarter of 2010. Production net of asset dispositions increased 16% for the year ended December 31, 2010 as compared to 2009 as a result of our successful exploration and development activities. Natural gas revenue for 2010 benefited from significant increases to production at our Montney natural gas resource play at Glacier, Alberta where we have increased production capacity by 140% since December 31, 2009. Additional increases in production have been realized now that our facilities and infrastructure expansion work have been completed in the first quarter of 2011. Total revenue was also positively impacted by crude oil and NGLs prices, excluding hedging, that have been higher for 2010 as compared to 2009 and partially offset reduced production from asset dispositions. However, revenue has continued to be adversely impacted by natural gas prices that have been weak during the last two years due to many factors, including the recession in the North American economy that has generally reduced energy demand and higher North American natural gas production, both of which have maintained relatively high natural gas inventory levels.

Given the low natural gas price environment, our commodity price risk management program has delivered realized natural gas hedging gains of $12.9 million and $55.4 million for the three months and year ended December 31, 2010, respectively. As crude oil prices continued to strengthen throughout 2010, we realized crude oil hedging losses of $3.1 million and $10.2 million for the three months and year ended December 31, 2010, respectively. The Corporation enters derivative contracts whereby realized hedging gains and losses partially offset commodity price fluctuations, which can positively or negatively impact revenue. The realized natural gas hedging gains have been significant and helped us stabilize cash flows and ensure that our capital expenditure program is substantially funded by such cash flows.

Production

	Three months ended December 31			Year ended December 31		
	2010	**2009**	**% change**	**2010**	**2009**	**% change**
Natural gas (mcf/d)	106,125	84,466	26 %	101,562	104,527	(3) %
Crude oil (bbls/d)	4,886	5,985	(18) %	5,076	7,225	(30) %
NGLs (bbls/d)	1,734	2,503	(31) %	2,126	2,283	(7) %
Total (boe/d)	**24,308**	**22,566**	**8 %**	**24,129**	**26,929**	**(10) %**
Natural gas (%)	73%	62%		70%	65%	
Crude oil (%)	20%	27%		21%	27%	
NGLs (%)	7%	11%		9%	8%	

Average daily production during the fourth quarter of 2010 increased 8% above the same period of 2009, with natural gas production increasing 26% while being offset by decreases in crude oil and NGLs production. Production from the fourth quarter of 2009 also included approximately 1,990 boe/d related to assets disposed in 2010. After excluding production from these asset dispositions, Advantage's average daily production for the fourth quarter of 2010 increased approximately 18%, as compared to the same period of 2009. Average daily production for the fourth quarter of 2010 was comparable to the 24,287 boe/d reported in the third quarter of 2010 and our exit daily production rate for December 31, 2010 was approximately 25,000 boe/d, exceeding our guidance of exiting the year at 24,000 boe/d. Average annual production for 2010 was lower than 2009 due to the impact of asset dispositions which was partially offset by production growth at Glacier, Alberta. During the second quarter of 2010 our new 100% working interest gas plant ("Glacier gas plant") was brought on-stream ahead of schedule with production rates exceeding 50 mmcf/d (8,300 boe/d). Due to stronger than expected well performance, we were able to further increase Glacier production ending the year exceeding 60 mmcf/d (10,000 boe/d). This year represented another milestone in the development of our significant Montney reserves and resource potential at Glacier by increasing production capacity 140%.

Phase III of our Glacier development project has progressed ahead of schedule and on-budget with production now exceeding 100 mmcf/d (16,667 boe/d). We have been very active in drilling, testing and completing wells at Glacier during the last half of 2010 and into 2011. An additional 100 mmcf/d (16,667 boe/d) of production capacity currently exists and additional wells will be brought on-stream as required to offset declines and maintain production. We expect corporate production to average approximately 26,600 to 27,200 boe/d for the first half of 2011 since completing the 100 mmcf/d Glacier gas plant expansion.

Commodity Prices and Marketing

Natural Gas

($/mcf)	Three months ended December 31 2010	2009	% change	Year ended December 31 2010	2009	% change
Realized natural gas prices						
Excluding hedging	$ 3.49	$ 4.28	(18) %	$ 3.95	$ 4.06	(3) %
Including hedging	$ 4.81	$ 6.90	(30) %	$ 5.45	$ 6.24	(13) %
AECO monthly index	$ 3.58	$ 4.18	(14) %	$ 4.12	$ 4.12	- %

Realized natural gas prices, excluding hedging, were 18% lower for the three months ended and 3% lower for the year ended December 31, 2010 as compared to the same periods of 2009. Our realized natural gas prices, excluding hedging, for this quarter decreased 1% from the $3.51/mcf realized during the third quarter of 2010. Although natural gas prices have continued to remain weak, our commodity hedging strategy has resulted in realized natural gas prices, including hedging, that well exceed current market prices. Our realized natural gas prices, including hedging, have decreased during 2010 as compared to 2009 as we have less natural gas production hedged for this year at lower average prices. Nevertheless, our hedging program has significantly mitigated the negative impact from lower natural gas prices and has reduced the volatility of our cash flows.

During 2009 and 2010, natural gas prices have remained low from continued high US domestic natural gas production that has increased supply and the ongoing weaker North American economy that has negatively impacted demand. These factors have resulted in generally higher inventory during these years and has placed considerable downward pressure on natural gas prices. Heading into the 2009/2010 winter season, we saw strong inventory withdraws which helped to modestly strengthen prices relative to the prior lows experienced during the majority of 2009. However, as we exited the winter, natural gas prices significantly decreased and have remained weak throughout 2010. During the 2010/2011 winter we have seen respectable storage withdraws that has helped to reduce natural gas inventory to approximately the five-year average. Nevertheless, natural gas prices continue to remain weak as we exit the winter. We continue to believe in the longer-term price support for natural gas as reduced drilling for new resource based natural gas supplies and conventional natural gas will eventually reduce the supply levels. We continue to monitor these market developments closely and will be proactive in implementing an appropriate hedging strategy to mitigate the volatility in our cash flow as a result of fluctuations in natural gas prices.

Crude Oil and NGLs

($/bbl)	Three months ended December 31 2010	2009	% change	Year ended December 31 2010	2009	% change
Realized crude oil prices						
Excluding hedging	$ 74.76	$ 70.86	6 %	$ 72.80	$ 59.29	23 %
Including hedging	$ 67.91	$ 63.50	7 %	$ 67.28	$ 60.55	11 %
Realized NGLs prices						
Excluding hedging	$ 53.50	$ 44.34	21 %	$ 48.88	$ 38.10	28 %
Realized crude oil and NGLs prices						
Excluding hedging	$ 69.19	$ 63.04	10 %	$ 65.74	$ 54.20	21 %
Including hedging	$ 64.14	$ 57.85	11 %	$ 61.85	$ 55.16	12 %
WTI ($US/bbl)	$ 85.18	$ 76.17	12 %	$ 79.55	$ 61.93	28 %
$US/$Canadian exchange rate	$ 0.99	$ 0.95	4 %	$ 0.97	$ 0.88	10 %

Realized crude oil and NGLs prices, excluding hedging, increased 10% and 21% for the three months and year ended December 31, 2010, as compared to the same periods of 2009. As compared to the third quarter of 2010, realized crude oil and NGLs prices, excluding hedging, have increased 12% for the fourth quarter of 2010. Advantage's realized crude oil price may not change to the same extent as West Texas Intermediate ("WTI"), due to changes in the $US/$Canadian exchange rate 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 reached historic high levels in the first half of 2008, followed by a record decline in the latter half of the year and into early 2009, the result of demand destruction brought on by the global recession. There was improvement during the last half of 2009 which continued during 2010 and significantly escalated into 2011 primarily influenced by middle-east civil unrest, with WTI currently trading at approximately US$104/bbl. However, we have also seen a constant strengthening of the $US/$Canadian exchange rate during these years such that our increase in realized price has been less than the improvement in WTI. We continue to believe that the long-term pricing fundamentals for crude oil will remain strong with supply management by the OPEC cartel and strong relative demand from many developing countries, such as China and India.

Commodity Price Risk

The Corporation's financial results and condition will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely and are determined by economic and 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 Corporation's financial condition and performance. Advantage has an established financial hedging strategy and may manage the risk associated with changes in commodity prices by entering into derivative contracts. Although these commodity price risk management activities could expose Advantage to losses or gains, entering derivative contracts helps us to stabilize cash flows and ensures that our capital expenditure program is substantially funded by such cash flows. To the extent that Advantage engages in risk management activities related to commodity prices, it will be subject to credit risk associated with counterparties with which it contracts. Credit risk is mitigated by entering into contracts with only stable, creditworthy parties and through frequent reviews of exposures to individual entities. In addition, the Corporation only enters into derivative contracts with major banks that are members of our credit facility syndicate and international energy firms to further mitigate associated credit risk. Our credit facilities also prohibit the Corporation from entering into any derivative contract where the term of such contract exceeds three years. Further, the aggregate of such contracts cannot hedge greater than 60% of total estimated petroleum and natural gas production over two years and 50% over the third year.

We have historically been active in entering financial contracts to protect future cash flows and currently the Corporation has the following derivatives in place:

Description of Derivative	Term	Volume	Average Price
Natural gas - AECO			
Fixed price	April 2010 to January 2011	18,956 mcf/d	Cdn$7.25/mcf
Fixed price	January 2011 to December 2011	9,478 mcf/d	Cdn$6.24/mcf
Fixed price	January 2011 to December 2011	9,478 mcf/d	Cdn$6.24/mcf
Fixed price	January 2011 to December 2011	9,478 mcf/d	Cdn$6.26/mcf
Crude oil – WTI			
Fixed price	April 2010 to January 2011	2,000 bbls/d	Cdn$69.50/bbl
Fixed price	January 2011 to December 2011	1,500 bbls/d	Cdn$91.05/bbl

The derivative contracts have allowed us to fix the commodity price on anticipated production, net of royalties, as follows:

Commodity	Approximate Production Hedged, Net of Royalties (1)	Average Price
Natural gas - AECO		
January to March 2011	34%	Cdn$6.43/mcf
April to June 2011	22%	Cdn$6.24/mcf
July to September 2011	21%	Cdn$6.24/mcf
October to December 2011	22%	Cdn$6.24/mcf
Total 2011	**25%**	**Cdn$6.30/mcf**
Crude Oil - WTI		
January to March 2011	41%	Cdn$84.42/bbl
April to June 2011	30%	Cdn$91.05/bbl
July to September 2011	32%	Cdn$91.05/bbl
October to December 2011	32%	Cdn$91.05/bbl
Total 2011	**34%**	**Cdn$88.90/bbl**

(1) Approximate production hedged is based on our estimated average production by quarter, net of estimated royalty payments.

For the year ended December 31, 2010, we recognized in income a net realized derivative gain of $45.1 million (December 31, 2009 - $86.5 million net realized derivative gain) on settled derivative contracts as a result of average market prices decreasing below our established average hedge prices. Our net realized derivative gain has decreased during 2010 as compared to 2009 as we have less natural gas production hedged for this year at lower average prices and we realized losses on our crude oil hedges as WTI prices increased. However, our successful commodity price risk management program continued to realize significant gains on derivatives for the year ended December 31, 2010 that has helped to offset the continued weak natural gas prices and positively impact funds from operations. As at December 31, 2010, the fair value of the derivative contracts outstanding and to be settled was a net asset of approximately $22.6 million, an increase of $5.4 million from the $17.2 million net asset recognized as at December 31, 2009. For the year ended December 31, 2010, this $5.4 million increase was recognized in income as an unrealized derivative gain (December 31, 2009 – $23.7 million unrealized derivative loss). The valuation of the derivatives is the estimated fair value to settle the contracts as at December 31, 2010 and is based on pricing models, estimates, assumptions and market data available at that time. As such, the recognized amounts are not cash and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices and foreign exchange rates as compared to the valuation assumptions. The Corporation does not apply hedge accounting and current accounting standards require changes in the fair value to be included in the consolidated statements of income (loss) and comprehensive income (loss) as an unrealized derivative gain or loss with a corresponding derivative asset and liability recorded on the balance sheet. These derivative contracts will settle in 2011 corresponding to when the Corporation will receive revenues from production.

Royalties

	Three months ended December 31			Year ended December 31		
	2010	2009	% change	2010	2009	% change
Royalties ($000)	$ 9,313	$ 11,390	(18) %	$ 44,640	$ 49,010	(9) %
per boe	$ 4.16	$ 5.49	(24) %	$ 5.07	$ 4.99	2 %
As a percentage of revenue, excluding hedging	12.2%	13.8%	(1.6) %	14.0%	14.3%	(0.3) %

Advantage pays royalties to the owners of mineral rights from which we have leases. The Corporation currently has mineral leases with provincial governments, individuals and other companies. Royalty expense includes the impact of gas cost allowance ("GCA"), which is a reduction of royalties payable to the Alberta Provincial Government to recognize capital and operating expenditures incurred in the gathering and processing of their share of natural gas production and does not generally fluctuate with natural gas prices. Total royalties paid and royalties as a percentage of revenue decreased for the three months ended December 31, 2010 compared to the same period of 2009 due to lower natural gas prices. For the year ended December 31, 2010, total royalties paid decreased due to lower revenue from reduced production attributable to our asset dispositions while royalties as a percentage of revenue was comparable.

Our average corporate royalty rates are significantly impacted by the Alberta Provincial Government's royalty framework that was revised effective January 1, 2009 for conventional oil, natural gas and oil sands whereby Alberta royalties are affected by depths, well production rates, and commodity prices. Additionally, the Alberta Provincial Government implemented a number of drilling incentive programs with reduced royalty rates over a period of time for qualifying wells. The majority of our wells brought on production since April 1, 2009 qualify and benefit from a 5% royalty rate on the first 500 mmcf produced or one-year, whichever occurs first, and a drilling credit of $200 per metre drilled that reduces capital spending. The drilling credit incentives are effective for qualifying wells drilled and brought on production from April 1, 2009 to March 31, 2011 while the reduced 5% royalty rate program was made a permanent incentive as of May 1, 2010. The Alberta Provincial Government also made changes in the Natural Gas Deep Drilling Program ("NGDDP") which reduces the vertical depth requirement to 2,000 metres (from 2,500 metres) and makes the program permanent. As a result, all of our Montney horizontal wells at Glacier drilled after May 1, 2010 will qualify for the NGDDP which is estimated to provide an additional royalty incentive of $2.7 to $3.4 million for a typical horizontal well (a typical Advantage horizontal well at Glacier is 4,200 to 4,500 metres in total length). This royalty incentive results in an estimated 5 to 7% royalty rate for all Montney horizontal wells for the life of the well. This significantly lowers the natural gas price threshold required to drill economic wells and substantially improves the value of future reserves and upside potential at Glacier.

We expect our corporate royalty rate to be in the range of 13% to 15% for the first half of 2011. Alberta royalty rates will continue to fluctuate based on commodity prices, individual well productivity, and our ongoing capital development plans.

Operating Costs

	Three months ended December 31			Year ended December 31		
	2010	2009	% change	2010	2009	% change
Operating costs ($000)	$ 23,787	$ 22,847	4 %	$ 93,875	$ 119,022	(21) %
per boe	$ 10.64	$ 11.01	(3) %	$ 10.66	$ 12.11	(12) %

Total operating costs increased 4% for the three months ended December 31, 2010 and decreased 21% for the year ended December 31, 2010 as compared to the same periods of 2009. The reduction in total operating costs for 2010 has been primarily due to the sale of higher cost assets, increased production from Glacier and benefits of our ongoing optimization program. Total operating costs increased modestly during the fourth quarter of 2010 as compared to the same period of 2009 due to an 8% increase in corporate production and the impact of cold weather operations. Operating costs per boe decreased 12% from 2009 to 2010 and we anticipate corporate operating costs will decline further in 2011 as a result of increasing production at Glacier. Operating costs at Glacier during the fourth quarter of 2010 decreased to approximately $2.85/boe ($0.48/mcf) which has significantly improved the netbacks realized from our Montney gas production. We estimate that operating costs at Glacier will be further reduced to a target of approximately $1.80/boe ($0.30/mcf) at 100 mmcf/d due to the efficiencies created by increasing the production rate through our 100% owned Glacier gas plant. We will seek further opportunities to improve our operating cost structure and expect corporate operating costs for the first half of 2011 to be between $8.50 and $9.00/boe.

General and Administrative

	Three months ended December 31			Year ended December 31		
	2010	2009	% change	2010	2009	% change
General and administrative						
Cash expense ($000)	$ 6,141	$ 8,613	(29) %	$ 24,701	$ 29,162	(15) %
per boe	$ 2.75	$ 4.15	(34) %	$ 2.80	$ 2.97	(6) %
Non-cash expense ($000)	$ 2,039	$ 2,270	(10) %	$ 12,877	$ 10,173	27 %
per boe	$ 0.91	$ 1.09	(17) %	$ 1.46	$ 1.03	42 %
Employees at December 31				128	129	(1) %

Cash general and administrative ("G&A") expense for the three months and year ended December 31, 2010 has decreased as compared to the same periods of 2009 due to incremental costs incurred in 2009 associated with the asset dispositions (approximately $1.8 million for severance costs) and costs incurred for our corporate conversion and reorganization (approximately $2.5 million).

Non-cash G&A expense for the three months ended December 31, 2010 decreased 10% but increased 27% for the year ended December 31, 2010, as compared to the same periods of 2009. Non-cash G&A expense is primarily comprised of Advantage's Restricted Share Performance Incentive Plan ("RSPIP" or the "Plan") as approved by the shareholders with the purpose to retain and attract employees, to reward and encourage performance, and to focus employees on operating and financial performance that results in lasting shareholder return. The Plan authorizes the Board of Directors to grant restricted shares to service providers of the Corporation, including directors, officers, employees and consultants. The number of restricted shares granted is based on the Corporation's share price return for a twelve-month period and compared to the performance of a peer group approved by the Board of Directors. The share price return is calculated at the end of each and every quarter and is primarily based on the twelve-month change in the share price. If the share price return for a twelve-month period is positive, a restricted share grant will be calculated based on the return. If the share price return for a twelve-month period is negative, but the return is still within the top two-thirds of the approved peer group performance, the Board of Directors may grant a discretionary restricted share award. Compensation cost related to the Plan is recognized as equity-based compensation expense within G&A expense over the service period and incorporates the share grant price, the estimated number of restricted shares to vest, and certain management estimates. For the year ended December 31, 2010, we granted 2,547,020 restricted shares at an average grant price of $6.93 per restricted share and recognized $16.1 million of equity-based compensation expense, including a non-cash amount of $13.4 million, related to restricted shares granted to service providers. During the year ended December 31, 2010 we issued 1,346,481 shares to service providers in accordance with the vesting provisions of the Plan. As at December 31, 2010, 2,925,868 restricted shares remain unvested and will vest to service providers over the next two years with a total of $8.1 million in compensation cost to be recognized over the future service periods.

Management Internalization

	Three months ended December 31			Year ended December 31		
	2010	2009	% change	2010	2009	% change
Management internalization ($000)	$ -	$ -	- %	$ -	$ 1,724	(100) %
per boe	$ -	$ -	- %	$ -	$ 0.18	(100) %

In 2006, Advantage Energy Income Fund (the "Fund") and Advantage Investment Management Ltd. (the "Manager") reached an agreement to internalize a pre-existing management contract arrangement. As part of the agreement, the Fund 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 three-year period and was deferred and amortized into income as management internalization expense over the specific vesting periods. As of June 23, 2009, the final Trust Units held in escrow vested and there is no subsequent management internalization expense recognized.

Interest on Bank Indebtedness

	Three months ended December 31			Year ended December 31		
	2010	2009	% change	2010	2009	% change
Interest expense ($000)	$ 3,414	$ 5,066	(33) %	$ 13,545	$ 19,752	(31) %
per boe	$ 1.53	$ 2.44	(37) %	$ 1.54	$ 2.01	(23) %
Average effective interest rate	4.9%	4.5%	0.4 %	5.0%	4.9%	0.1 %
Bank indebtedness at December 31 ($000)				$ 290,657	$ 250,262	16 %

Total interest expense decreased 33% for the three months and 31% for the year ended December 31, 2010 as compared to 2009. During the first half of 2009, Advantage experienced significantly lower average interest rates as bank lending rates declined in response to rate reductions enacted by central banks to stimulate the economy. This reduced interest expense was partially offset by additional interest expense on a higher average debt balance during that period. In June 2009 our credit facility was renewed and was subject to generally higher basis point and stamping fee adjustments as was typically applied by financial institutions at that time. Therefore, our average effective interest rate during 2010 has been slightly higher than 2009; however, this was significantly offset by lower interest expense on the reduced average bank indebtedness that resulted from proceeds on various asset dispositions and both the equity financing and convertible debenture issuance during the periods. Bank indebtedness has increased in the fourth quarter of 2010 as expected due to progress of the Phase III capital expenditure program at Glacier. Our revolving credit facility was renewed in June 2010 and is subject to basis point and stamping fee adjustments ranging from 1.25% to 3.75%, depending on the Corporation's debt to cash flow ratio. The Corporation's interest rates are primarily based on short term bankers acceptance rates plus a stamping fee. We monitor the debt level to ensure an optimal mix of financing and cost of capital that will provide a maximum return to our shareholders. Our current credit facilities have been a favorable financing alternative with an effective interest rate of 5.0% for the year ended December 31, 2010.

Interest and Accretion on Convertible Debentures

	Three months ended December 31			Year ended December 31		
	2010	2009	% change	2010	2009	% change
Interest on convertible debentures ($000)	$ 2,303	$ 2,344	(2) %	$ 11,486	$ 13,676	(16) %
per boe	$ 1.03	$ 1.13	(9) %	$ 1.30	$ 1.39	(6) %
Accretion on convertible debentures ($000)	$ 939	$ 379	148 %	$ 4,097	$ 2,354	74 %
per boe	$ 0.42	$ 0.18	133 %	$ 0.47	$ 0.24	96 %
Convertible debentures maturity value at December 31 ($000)				$ 148,544	$ 218,471	(32) %

Interest on convertible debentures for the three months and year ended December 31, 2010 has decreased compared to 2009 due to the maturity of the 8.25% debentures on February 1, 2009, the 8.75% debentures on June 30, 2009, the 7.50% debentures on October 1, 2009, and the 6.50% debentures on June 30, 2010. The reduced interest has been partially offset by additional interest on our 5.00% convertible debentures that were issued on December 31, 2009. Accretion on convertible debentures has increased for the three months and year ended December 31, 2010 as compared to the same periods of 2009 due to the higher accretion expense on the 5.00% convertible debentures as a result of the greater value assigned to the equity component of the debenture representing the conversion option available to debentureholders.

Depletion, Depreciation and Accretion

	Three months ended December 31			Year ended December 31		
	2010	2009	% change	2010	2009	% change
Depletion, depreciation and accretion ($000)	$ 46,762	$ 52,284	(11) %	$ 215,780	$ 256,882	(16) %
per boe	$ 20.91	$ 25.18	(17) %	$ 24.50	$ 26.13	(6) %

Depletion and depreciation of petroleum and natural gas properties is provided on the "unit-of–production" method based on total proved reserves. Accretion represents the increase in the asset retirement obligation liability each reporting period due to the passage of time. The depletion, depreciation and accretion ("DD&A") provision has decreased for the three months and year ended December 31, 2010 compared to 2009 due to reduced production from the asset dispositions that closed during the periods and a lower average rate of DD&A per boe. Our DD&A rate per boe has decreased considerably during 2010 as compared to 2009 due to a higher proportion of proved reserves as compared to capital expenditures and future development capital. This change has occurred primarily due to our successful exploration and development activities, particularly at Glacier, that contributed to a 33% increase in corporate proved reserves.

Taxes

Current taxes paid or payable for the year ended December 31, 2010 amounted to $1.3 million, comparable to the expense for the same period of 2009. Current taxes primarily represent Saskatchewan resource surcharge, which is based on the petroleum and natural gas revenues earned within the province of Saskatchewan.

Future income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the year ended December 31, 2010, the Corporation recognized a total future income tax reduction of $8.2 million compared to a future income tax reduction of $10.9 million for the same period of 2009. The future income tax reduction for 2010 is comparable to 2009, although the loss before taxes for the prior year was significantly higher, due to a $23.0 million future income tax expense impact recognized in the third quarter of 2009 related to the corporate conversion that was completed during that period. As at December 31, 2010, the Corporation had a total future income tax liability balance of $35.3 million, compared to $43.5 million at December 31, 2009. 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.

The Corporation has approximately $1.6 billion in tax pools and deductions at December 31, 2010, which can be used to reduce the amount of taxes payable by Advantage. The estimated tax pools in place at December 31, 2010 are as follows:

	December 31, 2010 Estimated Tax Pools ($ millions)
Undepreciated Capital Cost	$ 413
Canadian Oil and Gas Property Expenses	138
Canadian Development Expenses	331
Canadian Exploration Expenses	44
Non-capital losses	633
Other	11
	$ 1,570

Advantage has a federal non-capital loss carry forward balance of approximately $633 million (December 31, 2009 - $508 million). These losses expire between 2023 and 2030.

Net Loss

	Three months ended December 31			Year ended December 31		
	2010	2009	% change	2010	2009	% change
Net loss ($000)	$ (18,169)	$ (14,213)	28 %	$ (44,208)	$ (86,426)	(49) %
per share - basic and diluted	$ (0.11)	$ (0.09)	22 %	$ (0.27)	$ (0.56)	(52) %

Net loss and net loss per share increased for the three months ended December 31, 2010 but decreased for the year ended December 31, 2010, as compared to the same periods of 2009. During the third quarter of 2009 and the second quarter of 2010 we completed several asset dispositions that generally reduced all revenues and expenses as compared to the prior year. However, with our new 100% working interest Glacier gas plant that came on-stream during the second quarter of 2010, our corporate natural gas production has increased 26% as compared to the fourth quarter of 2009 thereby exceeding disposed production. Revenue for 2010 was positively impacted by higher crude oil prices as compared to 2009 but our major challenge continues to be the natural gas price environment that has remained weak and adversely impacts revenue, which generally results in our recognized net loss regardless of other significant positive accomplishments during the year. Low revenues were partially mitigated by our commodity hedging program that resulted in a net realized derivative gain of $45.1 million for the year ended December 31, 2010 and a non-cash unrealized derivative gain of $5.4 million relating to the valuation of commodity hedging contracts outstanding as at December 31, 2010 that will not settle until 2011. Our realized derivative gain has decreased during 2010 as compared to 2009 as we have less natural gas production hedged for this year at lower average prices and we realized losses on our crude oil hedges as WTI prices increased. We continue to experience low royalty rates due to weak natural gas prices and Alberta Provincial royalty reduction incentive plans relative to our capital development program. Operating costs have continued to improve through increased production volumes at Glacier, divestment of higher cost non-core assets and an aggressive optimization program that continues to demonstrate positive benefits. We anticipate that corporate operating costs will further improve as a result of lower cost production from our Glacier property that is currently producing in excess of 100 mmcf/d. Our net loss for 2010 is also lower relative to 2009 due to significant costs incurred during the third quarter of 2009 attributed to the corporate conversion, including the recognition of several one-time costs in G&A expense and a future income tax expense of $23.0 million.

Cash Netbacks

	Three months ended December 31				Year ended December 31			
	2010		2009		2010		2009	
	$000	per boe	$000	per boe	$000	per boe	$000	per boe
Revenue	$ 76,221	$ 34.08	$ 82,510	$ 39.74	$ 319,368	$ 36.26	$ 343,005	$ 34.90
Realized gain on derivatives	9,791	4.38	16,272	7.84	45,133	5.12	86,487	8.80
Royalties	(9,313)	(4.16)	(11,390)	(5.49)	(44,640)	(5.07)	(49,010)	(4.99)
Operating costs	(23,787)	(10.64)	(22,847)	(11.01)	(93,875)	(10.66)	(119,022)	(12.11)
Operating	**$ 52,912**	**$ 23.66**	**$ 64,545**	**$ 31.08**	**$ 225,986**	**$ 25.65**	**$ 261,460**	**$ 26.60**
General and administrative (1)	(6,141)	(2.75)	(8,613)	(4.15)	(24,701)	(2.80)	(29,162)	(2.97)
Interest (2)	(3,376)	(1.51)	(5,003)	(2.41)	(13,346)	(1.52)	(19,667)	(2.00)
Interest on convertible debentures (2)	(2,303)	(1.03)	(2,344)	(1.13)	(11,486)	(1.30)	(13,676)	(1.39)
Income and capital taxes	(348)	(0.16)	(304)	(0.15)	(1,314)	(0.15)	(1,280)	(0.13)
Funds from operations and cash netbacks	**$ 40,744**	**$ 18.21**	**$ 48,281**	**$ 23.24**	**$ 175,139**	**$ 19.88**	**$ 197,675**	**$ 20.11**

(1) General and administrative expense excludes non-cash G&A and non-cash equity-based compensation expense.
(2) Interest excludes non-cash accretion expense.

Funds from operations decreased in total for the three months and year ended December 31, 2010 compared to the same periods of 2009 primarily due to our asset dispositions completed in the third quarter of 2009 and the second quarter of 2010 that generally impacted all revenues and expenses. However, funds from operations have been positively impacted during 2010 due to completion of the Glacier gas plant whereby we have realized production rates exceeding 50 mmcf/d (8,300 boe/d). Due to stronger than expected well performance, we were able to exit 2010 with Glacier production exceeding 60 mmcf/d (10,000 boe/d). Funds from operations per boe or cash netbacks decreased when compared to 2009 primarily due to lower realized derivative gains as we have less natural gas production hedged for 2010 at lower average prices. However, our successful commodity price risk management program has still enabled us to realize significant gains on derivatives of $45.1 million for the year ended December 31, 2010 that has helped to offset the continued weak natural gas prices and positively impact funds from operations. Funds from operations has also benefited during this year from higher crude oil prices and continued cost reductions. Unfortunately, natural gas prices still remain weak and pose a continuing challenge to the entire natural gas industry. Operating costs per boe decreased as we continue to realize benefits from our divestment of higher cost assets and the addition of lower cost production due to the completion of our Glacier gas plant. Interest expense has also continued to decrease as we utilized proceeds from the various asset dispositions and both the equity financing and convertible debenture issuance during the periods to repay bank indebtedness and maturing convertible debentures. When comparing the current quarter to the third quarter of 2010, our funds from operations per boe increased 6% to $18.21/boe from $17.19/boe as both production and crude oil prices increased, partially offset by the impact of lower natural gas prices.

Contractual Obligations and Commitments

The Corporation has contractual obligations in the normal course of operations including purchases of assets and services, operating agreements, transportation commitments, sales contracts, bank indebtedness 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 Corporation's remaining contractual obligations and commitments. Advantage has no guarantees or off-balance sheet arrangements other than as disclosed.

		Payments due by period				
($ millions)	**Total**	**2011**	**2012**	**2013**	**2014**	**2015**
Building leases	$ 10.8	$ 3.5	$ 3.4	$ 2.5	$ 1.4	$ -
Pipeline/transportation	34.2	8.3	8.4	8.1	7.3	2.1
Capital lease obligations	0.8	0.8	-	-	-	-
Bank indebtedness [1]	290.7	-	290.7	-	-	-
Convertible debentures [2]	148.5	62.3	-	-	-	86.2
Total contractual obligations	**$ 485.0**	**$ 74.9**	**$ 302.5**	**$ 10.6**	**$ 8.7**	**$ 88.3**

(1) The Corporation's bank indebtedness does not have specific maturity dates. It is governed by a credit facility agreement with a syndicate of financial institutions. Under the terms of the agreement, the facility is reviewed annually, with the next review scheduled in June 2011. The facility is revolving, and is extendible at each annual review for a further 364 day period at the option of the syndicate. If not extended, the credit facility is converted at that time into a one-year term facility, with the principal payable at the end of such one-year term. Management fully expects that the facility will be extended at each annual review.

(2) As at December 31, 2010, Advantage had $148.5 million convertible debentures outstanding (excluding interest payable during the various debenture terms). Each series of convertible debentures are convertible to shares based on an established conversion price. All remaining obligations related to convertible debentures can be settled through the payment of cash or issuance of shares at Advantage's option.

Liquidity and Capital Resources

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

($000, except as otherwise indicated)	**December 31, 2010**
Bank indebtedness (long-term)	$ 290,657
Working capital deficit [1]	64,452
Net debt	$ 355,109
Shares outstanding, representing shareholders' equity	164,092,009
Shares closing market price ($/share)	$ 6.76
Market capitalization [2]	$ 1,109,262
Convertible debentures maturity value (current and long-term)	$ 148,544
Total capitalization	**$ 1,612,915**

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

(2) Market capitalization is a non-GAAP measure.

Advantage monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Corporation is composed of working capital, bank indebtedness, convertible debentures, capital lease obligations and shareholders' equity. Advantage may manage its capital structure by issuing new shares, repurchasing outstanding shares, obtaining additional financing either through bank indebtedness or convertible debenture issuances, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend, implementing a dividend reinvestment plan, adjusting capital spending, or disposing of assets. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

Management of the Corporation's capital structure is facilitated through its financial and operational forecasting processes. The forecast of the Corporation's future cash flows is based on estimates of production, commodity prices, forecast capital and operating expenditures, and other investing and financing activities. The forecast is regularly updated based on new commodity prices and other changes, which the Corporation views as critical in the current environment. Selected forecast information is frequently provided to the Board of Directors. This continual financial assessment process further enables the Corporation to mitigate risks. The Corporation continues to satisfy all liabilities and commitments as they come due.

The current economic situation has placed considerable pressure on commodity prices. Natural gas prices have remained weak throughout 2009 and 2010 due to the ailing economy as well as high inventory levels with AECO gas presently trading at approximately $3.80/mcf. Crude oil has improved since early 2009 and has continued to increase with WTI at approximately US$104/bbl. The outlook for the Corporation from prolonged weak natural gas prices would be reductions in operating netbacks and funds from operations. Management has partially mitigated this risk through our commodity hedging program but the lower natural gas price environment has still had a significant negative impact. In order to strengthen our financial position and balance our cash flows, in 2009 we completed an equity financing, two asset dispositions, and issued 5.00% convertible debentures and in 2010 we completed two additional asset dispositions. These steps have allowed us to repay significant bank indebtedness and maturing convertible debentures and also enabled us to focus capital spending on our Glacier Montney natural gas resource play. However, we continue to be very cognizant of improving our financial flexibility in the current environment and have initiated a process to sell certain oil-weighted assets to Longview with an anticipated closing date in April, 2011. The net proceeds from the Transaction will be utilized to further repay bank indebtedness.

We believe that Advantage has implemented strategies to protect our business as much as possible in the current industry and economic environment. We have implemented a strategy to balance funds from operations and our capital program expenditure requirements. A successful hedging program was also executed to help reduce the volatility of funds from operations. However, we are still exposed to risks as a result of the current economic situation. We continue to closely monitor the possible impact on our business and strategy, and will make adjustments as necessary with prudent management.

Shareholders' Equity and Convertible Debentures

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

As at December 31, 2010, the Corporation had 164.1 million shares outstanding. During 2010 we have issued 1,346,481 shares to employees in accordance with the vesting provisions of the RSPIP. As at March 22, 2011, shares outstanding have increased to 164.5 million.

The Corporation had $148.5 million convertible debentures outstanding at December 31, 2010 that were immediately convertible to 13.0 million shares based on the applicable conversion prices (December 31, 2009 - $218.5 million outstanding and convertible to 15.8 million shares). During the year ended December 31, 2010, there were no conversions of debentures. The principal amount of 6.50% convertible debentures matured on June 30, 2010 and was settled with $69.9 million in cash. As at March 22, 2011, the convertible debentures outstanding have not changed from December 31, 2010. We have $62.3 million of 7.75% and 8.00% debentures that mature in December 2011 and $86.2 million of 5.00% debentures that mature in January 2015. These obligations can be settled through the payment of cash or issuance of shares at Advantage's option.

Bank Indebtedness, Credit Facility and Other Obligations

At December 31, 2010, Advantage had bank indebtedness outstanding of $290.7 million. Bank indebtedness has increased $40.4 million since December 31, 2009, primarily the result of our significant capital expenditure program during this year. The Corporation's credit facility is $525 million, comprised of a $20 million extendible revolving operating loan facility and a $505 million extendible revolving loan facility (the "Credit Facilities"). The Credit Facilities are collateralized by a $1 billion floating charge demand debenture covering all assets of the Corporation. As well, the borrowing base for the Corporation's credit facilities is determined through utilizing our regular reserve estimates. The banking syndicate thoroughly evaluates the reserve estimates based upon their own commodity price expectations to determine the amount of the borrowing base. Revisions or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing base of the Corporation. The next annual review is scheduled to occur in June 2011. There can be no assurance that the $525 million credit facility will be renewed at the current borrowing base level at that time.

Advantage had a working capital deficiency of $64.5 million as at December 31, 2010. 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. Working capital varies primarily due to the timing of such items, the current level of business activity including our capital expenditure program, commodity price volatility, and seasonal fluctuations. Our working capital deficiency is usually higher at the end of the year, as would be expected, due to accounts payable and accrued liabilities associated with our capital expenditure program. We do not anticipate any problems in meeting future obligations as they become due given the level of our funds from operations. It is also important to note that working capital is effectively integrated with Advantage's revolving operating loan facility, which assists with the timing of cash flows as required. Advantage has a capital lease obligation on various equipment used in its operations. The total amount of principal obligation outstanding at December 31, 2010 is $0.8 million, bearing interest at an effective rate of 5.8%, and is collateralized by the related equipment. The lease expires in 2011 at which time title of the equipment will transfer to Advantage.

Capital Expenditures

	Three months ended December 31		Year ended December 31	
($000)	**2010**	**2009**	**2010**	**2009**
Land and seismic	$ 1,023	$ (186)	$ 4,309	$ 2,080
Drilling, completions and workovers	55,902	33,566	169,814	105,618
Well equipping and facilities	11,896	24,615	48,782	61,155
Other	97	51	403	213
	$ 68,918	$ 58,046	$ 223,308	$ 169,066
Property dispositions	(226)	34	(69,676)	(245,150)
Net capital expenditures	**$ 68,692**	**$ 58,080**	**$ 153,632**	**$ (76,084)**

Advantage's exploitation and development program is focused primarily at Glacier, Alberta where we are developing a significant natural gas resource play. Our preference is to operate a high percentage of our properties such that we can maintain control of capital expenditures, operations and cash flows. Advantage's acquisition strategy has been to acquire long-life properties with strong drilling opportunities while retaining a balance of year round access and risk.

For the year ended December 31, 2010, the Corporation spent a net $153.6 million and drilled a total of 50.2 net (63 gross) wells at a 98% success rate. Total capital spending included $192.4 million at Glacier, $5.3 million at Sunset, $3.9 million at Nevis, $4.5 million in Saskatchewan, and the remaining balance at other areas. However, we continue to focus on development of our Montney natural gas resource play at Glacier where Advantage will continue to employ a phased development approach. Phase II was completed during the second quarter of 2010 and costs incurred were lower than anticipated due to our successful drilling program which demonstrated well productivities that exceeded internal expectations and reduced drilling and completion costs. Construction of our facilities and gas gathering system expansions were completed ahead of schedule and on-budget leading to an earlier than anticipated commissioning of Advantage's 100% working interest gas plant in March 2010. The Glacier gas plant has been operating at its design capacity with throughput rates between 50 and 55 mmcf/d. Due to stronger than expected well performance, we were able to further increase Glacier production ending the year exceeding 60 mmcf/d (10,000 boe/d). Our Phase III expansion began at the end of the second quarter of 2010 and included the drilling of 28 net (28 gross) horizontal wells and the fabrication of a new processing train to facilitate expansion of our Glacier gas plant to its current production capacity of 100 mmcf/d. In addition to the current production rate of 100 mmcf/d, we currently have an incremental 100 mmcf/d (16,667 boe/d) of production capacity available and additional wells will be brought on-stream as required to offset declines and maintain production. The amount of excess field production capacity above our current plant capacity is a result of our successful drilling program which demonstrated well test rates that exceeded expectations and proved up a large portion of our undrilled acreage at Glacier.

On May 31 and June 3, 2010, we closed two additional asset dispositions of non-core natural gas weighted properties for net proceeds of $66.5 million and representing production of approximately 1,700 boe/d. During 2010 we had a number of other minor dispositions that were successfully completed. The net proceeds from the dispositions were utilized to reduce outstanding debt.

Sources and Uses of Funds

The following table summarizes the various funding requirements during the year ended December 31, 2010 and 2009 and the sources of funding to meet those requirements:

($000)	Year ended December 31 2010	2009
Sources of funds		
Funds from operations	$ 175,139	$ 197,675
Property dispositions	69,676	245,150
Increase in bank indebtedness	41,068	-
Decrease in working capital	15,002	-
Units issued, net of costs	-	96,770
Convertible debentures issued, less costs	-	82,515
	$ 300,885	**$ 622,110**
Uses of funds		
Expenditures on fixed assets	$ 223,308	$ 169,066
Convertible debenture maturities	69,927	82,107
Expenditures on asset retirement	6,275	5,437
Reduction of capital lease obligations	1,375	2,299
Decrease in bank indebtedness	-	336,933
Distributions to Unitholders	-	23,481
Increase in working capital	-	2,787
	$ 300,885	**$ 622,110**

Funds from operations decreased during the year ended December 31, 2010 compared to 2009, due to reduced production attributed to asset dispositions and lower realized derivative gains from less natural gas production hedged for this year at lower average prices. However, funds from operations were positively impacted during 2010 from an improvement in crude oil prices and continued cost reduction efforts. Significant asset dispositions were completed in both 2010 and 2009 with proceeds utilized to generally repay bank indebtedness and convertible debenture maturities. During the second quarter of 2010 our 6.50% convertible debentures matured and were settled with $69.9 million in cash. Bank indebtedness increased in 2010 as would be expected due to our very active capital expenditure program that included finalizing our Glacier Phase II program and commencing Phase III that comprised expanding the Glacier gas plant to 100 mmcf/d and drilling 28 wells. We have focused on balancing our funds from operations and expenditures on fixed assets to maintain a strong balance sheet and preserve financial flexibility.

Annual Financial Information

The following is a summary of selected financial information of the Corporation and the Fund for the years indicated.

	Year ended Dec. 31, 2010	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008
Total revenue (before royalties) ($000)	$ 364,501	$ 429,492	$ 741,962
Net loss ($000)	$ (44,208)	$ (86,426)	$ (20,577)
per share - basic and diluted	$ (0.27)	$ (0.56)	$ (0.15)
Total assets ($000)	$ 1,842,571	$ 1,927,241	$ 2,302,746
Long term financial liabilities ($000) (1)	$ 363,675	$ 383,797	$ 718,511
Distributions declared per Trust Unit (2)	$ -	$ 0.08	$ 1.40

(1) Long term financial liabilities exclude asset retirement obligations and future income taxes.

(2) On March 18, 2009 Advantage annouced the discontinuance of distributions.

Total revenue (before royalties) was significantly higher in 2008 as compared to 2009 and 2010 due to much stronger commodity prices and higher production. However, a net loss was still experienced in 2008 as we recognized a $120.3 million impairment of goodwill. For 2009 and 2010, total revenue (before royalties) decreased significantly as a result of considerably reduced commodity prices and lower production resulting from various asset dispositions completed in these years. The lower commodity prices also primarily contributed to the net losses recognized. Total assets have continually decreased from 2008 through 2010 due to the asset dispositions and depletion, depreciation and accretion expense that has exceeded capital spending activity. From 2008 to 2010 we have also experienced significant decreases in long term financial liabilities due to our concerted efforts to reduce debt, including utilizing net proceeds from significant asset dispositions, an equity financing, and a convertible debenture issuance. We also suspended all distributions in March 2009 and completed our conversion to a corporation in July 2009.

Quarterly Performance

($000, except as otherwise indicated)	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1
Daily production								
Natural gas (mcf/d)	106,125	104,714	107,821	87,346	84,466	91,200	124,990	117,968
Crude oil and NGLs (bbls/d)	6,620	6,835	7,395	7,975	8,488	8,431	10,212	10,942
Total (boe/d)	24,308	24,287	25,365	22,533	22,566	23,631	31,044	30,603
Average prices								
Natural gas ($/mcf)								
Excluding hedging	$ 3.49	$ 3.51	$ 3.81	$ 5.26	$ 4.28	$ 2.89	$ 3.56	$ 5.36
Including hedging	$ 4.81	$ 4.80	$ 5.58	$ 6.87	$ 6.90	$ 6.10	$ 5.63	$ 6.52
AECO monthly index	$ 3.58	$ 3.72	$ 3.86	$ 5.35	$ 4.18	$ 3.03	$ 3.66	$ 5.64
Crude oil and NGLs ($/bbl)								
Excluding hedging	$ 69.19	$ 61.84	$ 64.66	$ 67.23	$ 63.04	$ 56.99	$ 55.89	$ 43.41
Including hedging	$ 64.14	$ 59.01	$ 61.80	$ 62.42	$ 57.85	$ 54.02	$ 54.51	$ 54.54
WTI ($US/bbl)	$ 85.18	$ 76.21	$ 77.98	$ 78.79	$ 76.17	$ 68.29	$ 59.62	$ 43.21
Total revenues (before royalties)	$ 86,012	$ 83,335	$ 96,377	$ 98,777	$ 98,782	$ 93,101	$ 114,659	$ 122,950
Net income (loss)	$ (18,169)	$ (16,915)	$ (22,279)	$ 13,155	$ (14,213)	$ (53,293)	$ (37,810)	$ 18,890
per share - basic	$ (0.11)	$ (0.10)	$ (0.14)	$ 0.08	$ (0.09)	$ (0.33)	$ (0.26)	$ 0.13
- diluted	$ (0.11)	$ (0.10)	$ (0.14)	$ 0.08	$ (0.09)	$ (0.33)	$ (0.26)	$ 0.13
Funds from operations	$ 40,744	$ 38,450	$ 45,605	$ 50,340	$ 50,083	$ 42,213	$ 51,590	$ 55,591
Distributions declared	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 17,266

The table above highlights the Corporation’s and Fund’s performance for the fourth quarter of 2010 and also for the preceding seven quarters. Production decreased modestly in the first quarter of 2009 as we experienced freezing conditions from early cold weather. Production increased in the second quarter of 2009 due to recovery from these cold weather conditions and additional production from a number of wells drilled during the first quarter of 2009 but delayed until after March 31, 2009 such that we could benefit from the 5% Alberta Provincial royalty rate available on such wells. We experienced a significant decrease in production during the third quarter of 2009 as we completed asset dispositions that closed in July 2009. The disposed properties represented approximately 8,100 boe/d of production. As the third quarter of 2009 still included 1,725 boe/d from the disposed properties, production in the fourth quarter of 2009 actually increased 3% from the prior quarter due to a few new wells, partially offset by some natural declines and cold weather conditions that typically cause production interruptions. An extended third party facility outage at our Lookout Butte property that began in 2008 resulted in 1,100 boe/d of reduced production that continued through much of 2009 but was completed and our production came back on in November 2009. Production for the first quarter of 2010 was comparable to the fourth quarter of 2009 but increased dramatically during the second quarter of 2010 as our new gas plant was completed and production from Glacier was increased to between 50 and 55 mmcf/d. We completed two additional asset dispositions during the end of the second quarter of 2010 representing approximately 1,700 boe/d that resulted in modestly lower production. The full impact of these recent dispositions resulted in the decrease in production for the third quarter of 2010 with our production remaining consistent during the fourth quarter of 2010. Our financial results, particularly revenues and funds from operations, have declined since 2008, as commodity prices decreased in response to the financial crisis that materialized in the fall of 2008 and commodity prices continued on a downward trend through to the third quarter of 2009. We experienced improvements in commodity prices during the fourth quarter of 2009 and the first quarter of 2010 that increased our revenues and funds from operations; however, natural gas prices still remained low. During the remainder 2010, natural gas prices weakened again, which has decreased our corresponding revenues and funds from operations. Weak commodity prices, particularly natural gas, have generally resulted in the recognized net losses for 2009 through 2010. Advantage did report net income in the first quarter of 2009 as we recognized both significant realized and unrealized gains on our derivative contracts and moderately lower expenses, including operating costs. Natural gas prices worsen during the second and third quarters of 2009 resulting in the recognition of net losses for the periods. The third quarter 2009 net loss was also impacted by additional costs incurred related to the corporate conversion, including a $23.0 million future income tax expense, and increased depletion and depreciation expense from a higher DD&A rate per boe that resulted from the asset dispositions. The net loss decreased during the fourth quarter of 2009 as commodity prices marginally improved. Partially offsetting the net losses experienced during 2009 has been the continuing reduction in costs including royalties and operating costs. We recognized net income during the first quarter of 2010 with improved crude oil prices and realized and unrealized gains on our derivative contracts associated with weak natural gas prices. Natural gas prices worsened during the remainder of 2010, resulting in the continued net losses during these quarters.

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 Corporation's financial results and financial condition.

Management relies on the estimate of reserves as prepared by the Corporation'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 and impairment of petroleum and natural gas properties. The reserve estimates are also used to assess the borrowing base for the Corporation'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 Corporation.

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

In accordance with GAAP, derivative assets and liabilities are recorded at their fair values at the reporting date, with unrealized gains and losses recognized directly into net income and comprehensive income in the same period. The fair value of derivatives outstanding is an estimate based on pricing models, estimates, assumptions and market data available at that time. As such, the recognized amounts are non-cash items and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices and foreign exchange rates as compared to the valuation assumptions.

International Financial Reporting Standards

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") confirmed that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for the fiscal years beginning on or after January 1, 2011. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Corporation's reporting for the first quarter 2011, for which the current and comparative information will be prepared under IFRS. We expect the transition to IFRS will impact accounting, financial reporting, processes, internal controls over financial reporting, taxes, and information systems. Management has engaged its key personnel responsible and developed an overall plan to address IFRS implementation. We anticipate no impact on the Corporations operations or business strategy from conversion to IFRS.

Phase one of our plan consisted of a high level assessment to identify key areas of Canadian GAAP versus IFRS differences that would most likely impact the Corporation. This assessment was completed in early 2009.

Phase two commenced in the third quarter of 2009 and involved the detailed assessment, from an accounting, financial reporting and business perspective, of the changes that would be caused by the conversion to IFRS. Specific accounting processes and policy review included: property, plant and equipment, exploration and evaluation costs, depreciation, impairment of assets, decommissioning liabilities and provisions, deferred income taxes, financial reporting and information systems. The deliverables for this phase include specific accounting policies for the above mentioned topics and also includes IFRS transitional choices. This phase is currently still in progress but is being finalized. The most significant change identified for Advantage, as with many companies in the oil and gas industry, will be associated with accounting for property, plant and equipment ("PP&E"). During the early stages of this phase, we had concentrated on the accounting for PP&E and have now primarily completed our assessments with key policy choices to be approved and finalized. We have now also evaluated most other accounting issues identified whereby differences between Canadian GAAP and IFRS exist for Advantage and have completed preliminary assessments and developed draft accounting policies.

Phase three involves the execution of the work completed in phase two, by making changes to business and accounting processes and supporting information systems, as well as the formal documentation of the final approved accounting policies and procedures compliant with IFRS. This phase is progressing well and is expected to be completed in early 2011. Details surrounding the collection of comparative financial and other data in 2010 are currently being finalized in this phase. We are also in the process of finalizing our accounting policies and determining the financial impacts. We have completed our initial draft IFRS transitional balance sheet as of January 1, 2010 and our first three quarters of 2010 financial statements based on preliminary selected accounting policies. Our external auditors have been conducting their audit work of our transitional balance sheet and review of our first and second quarters of 2010 financial statements. Their work is not yet completed and we will have ongoing discussions with them through the entire process. We have now started to prepare draft IFRS financial statements for the fourth quarter of 2010 and believe we are on schedule to complete the conversion within the required deadline. The draft transitional balance sheet and quarterly financial statements are subject to change depending upon the finalization and approval of accounting policies.

Education and training of key financial employees has been primarily completed. Training of other staff, management, and the Board is ongoing throughout the conversion project. Advantage views education and training as critical to our financial reporting controls and is a permanent process that we will continue. We will begin an education program for key stakeholders upon finalizing the impacts of the IFRS conversion project.

The Corporation has identified the following areas as having the greatest potential impact on the accounting policies, financial reporting and information systems requirements upon conversion to IFRS. Differences between IFRS and Canadian GAAP in addition to those referred to below, may still be identified based on further detailed analysis and other changes in IFRS prior to conversion in 2011. Advantage has not yet finalized all of its accounting policies or transitional choices and as such is unable to quantify all of the impacts on the financial statements of adopting IFRS at this time. Any accounting policy selections or potential impacts referred to below are preliminary and are not finalized until all policies have been selected, approved by the Board of Directors, and completion of the corresponding audit and reviews by our external auditors. We continue to monitor other IFRS developments that may impact our choice of accounting policies.

a) Property, plant and equipment

The Corporation, like many Canadian oil and gas reporting issuers, applies the "full cost" concept in accounting for its oil and gas assets. Under full cost, capital expenditures are maintained in a single cost centre for each country, and the cost centre is subject to a single depletion and depreciation calculation and impairment test. IFRS will require the Corporation to make a much more detailed assessment of its oil and gas assets that will impact depreciation and impairment calculations. Included in this assessment is an ongoing appraisal of exploration and evaluation expenditures ("E&E"). Under Canadian GAAP, it is necessary to track costs associated with unproved properties that would be excluded from depletion and depreciation calculations. Under IFRS, a company may choose to expense E&E associated costs or capitalize such costs without recording depreciation expense until the expenditures are determined to represent technically feasible and commercially viable projects at which time the costs are moved to development properties. Advantage currently anticipates that it will select to capitalize E&E costs except for costs incurred before the acquisition of rights to explore, and to begin depreciating when technically feasible and commercially viable. We do not anticipate this to have a material impact on our financial results other than to the extent that expenditures may be incurred related to unsuccessful wells or projects that will be expensed in the period incurred.

b) Depreciation

For Canadian GAAP purposes, the full cost method of accounting for oil and gas properties requires a single calculation of depletion and depreciation of the carrying value of PP&E based on proved reserves. However, IFRS requires an allocation of the amount recognized as PP&E to each significant identified component and each component depreciated separately, utilizing an appropriate method of depreciation. This component depreciation of PP&E will result in an increased number of calculations of depreciation expense and may impact the amount of depreciation expense recognized. IFRS also permits the option of using either proved or proved and probable reserves in the depreciation calculation. Advantage has tentatively concluded at this time to utilize proved and probable reserves which we would expect to decrease annual depreciation expense between $90 and $110 million.

c) Impairment of Assets

Under Canadian GAAP, impairment calculations are prepared according to a two-step test generally conducted at a country level. Step one involves a comparison of the PP&E carrying value to the undiscounted net cash flows of proved reserves. If a company should fail step one, step two is completed to measure the amount of impairment whereby the PP&E carrying value is compared to a calculated fair value with any excess carrying value above the fair value recognized as an impairment loss. Impairment losses recognized under Canadian GAAP are not subsequently reversed. Under IFRS, impairment testing is completed at an individual asset group or “Cash Generating Unit” level (“CGU”) when indicators suggest there may be impairment. A CGU is defined as the smallest group of assets that produce independent cash flows. Impairment of assets at a CGU level use a one-step approach for testing and measuring asset impairment, with asset carrying values compared to the higher of “Value in Use” and “Fair Value less Costs to Sell”. The IFRS methodology may result in the possibility of more frequent impairments in the carrying value of PP&E. However, under IFRS previous impairment losses (except for goodwill) must be reversed where circumstances change such that the previously recognized impairment has been reduced. Advantage has completed an initial assessment of CGU’s as of the transition date and has determined there to be 12 CGU’s. The number of CGU’s is subject to change as Advantage’s portfolio of assets may change through development activities, acquisitions or dispositions.

d) Decommissioning Liabilities

Both Canadian GAAP and IFRS require a company to provide for a liability related to decommissioning PP&E. Both methodologies are similar and we have determined there to be no significant difference for Advantage, other than a potential difference related to discount rates. Canadian GAAP requires that the decommissioning liability be discounted at a credit-adjusted risk-free rate while IFRS requires that the decommissioning liability be discounted at an appropriate rate with either the cash flows or rate adjusted for risks. As a result, there currently is the possibility of using a risk-free rate or a credit-adjusted risk-free rate. Advantage has tentatively selected to use the risk-free rate for discounting purposes, currently determined to be approximately 4%, and we expect this would increase the decommissioning liability at transition date between $100 and $110 million.

e) Deferred Income Taxes

Future income taxes under Canadian GAAP and deferred income taxes under IFRS are similar for Advantage and we are continuing to evaluate this complex area. However, any differences in decommissioning liabilities and PP&E, including depreciation, will impact the carrying value as reported on the balance sheet and therefore result in a difference in the balance of deferred taxes reported under IFRS.

f) First Time Adoption of International Financial Reporting Standards

IFRS 1 provides the framework for the first time adoption of IFRS and specifies that an entity shall apply the principles under IFRS retrospectively. IFRS 1 also specifies that the adjustments that arise on retrospective conversion to IFRS from other GAAP should be directly recognized in retained earnings. Certain optional exemptions and mandatory exceptions to retrospective application are provided under IFRS 1. Advantage has chosen to apply an exemption that allows an entity that used full cost accounting, at adoption of IFRS, to measure exploration and evaluation assets at the amount measured under its previous GAAP for those assets. The entity may also measure its oil and gas assets in the development and production phases, by allocating the amount determined under the entities previous GAAP to the underlying assets and areas pro rata using reserve volumes or reserve values as of that date. Advantage has made a preliminary allocation based on proved and probable reserves values discounted at 10%. The allocation process had no impact on Advantage’s carrying value of PP&E. As a result of applying this exemption, Advantage will also be required to complete an impairment test under IFRS on the transition date. A preliminary impairment test has been completed for the tentatively determined CGU's and there is currently no impairment at transition date.

Advantage has also elected not to reevaluate prior completed business combinations under Canadian GAAP and has simply reviewed such prior business combinations accounting to ensure that no assets were recognized that would be inappropriate under IFRS. We have not found any such items and there will be no impact from choosing this exemption.

g) Financial Reporting

The adoption of IFRS will result in different presentation and additional disclosure requirements in the financial statements. Draft IFRS financial statements including notes have been prepared and are being reviewed with our external auditors and Board of Directors. We anticipate that review and discussion of the presentation and disclosures will continue until the first interim financial statements are released for the quarter ended March 31, 2011.

h) Information Systems

The adoption of IFRS will have an impact on information systems requirements. We have evaluated our financial reporting systems and have made current changes to accommodate IFRS. We will continue assessing the need for additional system upgrades or modifications to ensure an efficient conversion to IFRS and to improve ongoing processes.

i) Internal Controls

In accordance with the Corporations approach to certification of internal controls required under Canadian Securities Administrators' National instrument 52-109 and SOX 302 and 404, all entity level, information technology, disclosures and business process controls will require updating and testing to reflect changes arising from our conversion to IFRS. Upon review with internal audit, we have determined there to be minimal updating of processes, controls and documentation required. We will work on updating our processes, controls and documentation during the final phase of IFRS conversion.

Controls and Procedures

The Corporation 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 Corporation is committed to providing timely, accurate and balanced disclosure of all material information about the Corporation. 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 President 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.

Evaluation of Disclosure Controls and Procedures

The Corporation has established a Disclosure Committee consisting of the executive members with the responsibility of overseeing the Corporation's disclosure practices and designing disclosure controls and procedures, as specified under Canadian and US securities law, to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by the Corporation under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation and that all material information relating to the Corporation is made known to them by others, particularly during the period in which the Corporation's annual and interim filings are being prepared. All written public disclosures are reviewed and approved by at least one member of the Disclosure Committee prior to issuance. Additionally, the Disclosure Committee assists the Chief Executive Officer and President and Chief Financial Officer of the Corporation in making certifications with respect to the disclosure controls of the Corporation required under applicable regulations and ensures that the Board of Directors is promptly and fully informed regarding potential disclosure issues facing the Corporation.

Management of Advantage, including our Chief Executive Officer and President and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the disclosure controls and procedures as of December 31, 2010. Based on that evaluation, our Chief Executive Officer and President and Chief Financial Officer have concluded that the disclosure controls and procedures are effective as of the end of the period, in all material respects. It should be noted that while the Chief Executive Officer and President and Chief Financial Officer believe that the Corporation's design of disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system does not provide absolute, but rather is designed to provide reasonable assurance that the objective of the control system is met.

Management’s Report on Internal Controls over Financial Reporting

The Corporation’s Management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in the rules of the United States Securities and Exchange Commission and the Canadian Securities Administrators. The Corporation’s internal control over financial reporting is a process designed, under the supervision and with the participation of executive and financial officers of the Corporation, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Corporation’s financial statements for external reporting purposes in accordance with GAAP.

The Corporation’s internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Corporation; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation’s assets that could have a material effect on the financial statements.

The Corporation’s internal control over financial reporting may not prevent or detect all misstatements because of inherent limitations. Additionally, 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 deterioration in the degree of compliance with the Corporation’s policies and procedures.

The Corporation’s management assessed the design and effectiveness of the internal control over financial reporting as of December 31, 2010, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Chief Executive Officer and President and Chief Financial Officer concluded that the Corporation maintained effective internal control over financial reporting as of December 31, 2010.

During the year ended December 31, 2010, there has been no change in the Corporation’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

Corporate Governance

The Board of Directors’ mandate is to supervise the management of the business and affairs of the Corporation. In particular, all decisions relating to: (i) the acquisition and disposition of properties for a purchase price or proceeds in excess of $5 million; (ii) the approval of annual operating and capital expenditure budgets; and (iii) the establishment of credit facilities and the issuance of additional shares, will be made by the Board.

The Board of Directors meets regularly to review the business and affairs of the Corporation to make any required decisions. The Board of Directors consists of nine members, seven of whom are unrelated to the Corporation. The Independent Reserve Evaluation Committee has four members, the Audit Committee has four members, and the Human Resources, Compensation and Corporate Governance Committee has three members. All members of the various committees are independent. One member of the Audit Committee has been designated a “Financial Expert” as defined in applicable regulatory guidance. In addition, the Chairman of the Board is not related and is not an executive officer of the Corporation.

The Board of Directors approved and Management implemented a Code of Business Conduct and Ethics. The purpose of the code is to lay out the expectation for the highest standards of professional and ethical conduct from our directors, officers and employees. The code reflects our commitment to a culture of honesty, integrity and accountability and outlines the basic principles and policies with which all employees are expected to comply. Our Code of Business Conduct and Ethics is available on our website at www.advantageog.com.

As a foreign private issuer listed on the New York Stock Exchange (the "NYSE"), Advantage is not required to comply with most of the NYSE rules and listing standards and instead may comply with domestic Canadian requirements. Advantage is, however, required to comply with the following NYSE Rules: (i) Advantage must have an audit committee that satisfies the requirements of Rule 10A-3 under the United States Securities Exchange Act of 1934, as amended; (ii) the Chief Executive Officer must promptly notify the NYSE in writing after an executive officer becomes aware of any material non-compliance with the applicable NYSE Rules; (iii) submit an executed annual written affirmation to the NYSE, as well as an interim affirmation each time certain changes occurs to the audit committee; and (iv) provide a brief description of any significant differences between its corporate governance practices and those followed by U.S. domestic issuers listed under the NYSE. Advantage has reviewed the NYSE listing standards and confirms that its corporate governance practices do not differ significantly from such standards.

A further discussion of the Corporation’s corporate governance practices can be found in the Management Proxy Circular.

Creation of Longview Oil Corp.

On March 7, 2011 Advantage announced that Longview Oil Corp. ("Longview"), a wholly-owned subsidiary of the Corporation, filed a preliminary prospectus on March 4, 2011 for an initial public offering (the "Offering"), which is targeted to raise gross proceeds of $150 million prior to an over-allotment option of up to 15% of the base offering size, exercisable 30 days following the closing of the Offering. The closing of the Offering is expected to occur in April, 2011.

Longview was created to acquire certain oil-weighted assets (the "Acquired Assets") located in West Central Alberta, Southeast Saskatchewan and the Lloydminster area of Saskatchewan with fourth quarter 2010 average production of 6,220 boe/d (74% crude oil and NGLs, proved reserves of 20.1 mmboe and proved plus probable reserves of 36.9 mmboe, based on a report prepared by Sproule & Associates Limited on the Acquired Assets for Advantage and Longview with an effective date of December 31, 2010. Longview's business strategy is to provide shareholders with attractive long-term returns that combine both growth and yield by exploiting the Acquired Assets in a financially disciplined manner, acquiring additional long-life oil and gas assets of a similar nature and through the payment of a monthly dividend.

Concurrent with closing of the Offering, Longview will purchase the Acquired Assets from Advantage (the "Transaction"), with consideration comprised of the net proceeds of the Offering, common shares of Longview and proceeds of $100 million to be drawn from an independent Longview credit facility (which is anticipated to be $200 million) to be established at closing. Advantage plans to use the cash proceeds from the Transaction to reduce outstanding bank indebtedness. The Transaction is conditional upon customary industry conditions including the approval of the Board of Directors of Advantage.

Advantage will retain an equity ownership interest of approximately 67% of the common shares of Longview (approximately 62% if the over-allotment option is exercised in full). Concurrent with closing of the Offering, Advantage will enter into a Technical Services Agreement (the "TSA") with Longview. Under the TSA, Advantage will provide the necessary personnel and technical services to manage Longview's business and Longview will reimburse Advantage on a monthly basis for its share of administrative charges based on respective levels of production. Longview will have an independent board of directors with three initial members. The officers of Longview will provide services to Longview under the TSA but will remain as employees of Advantage.

As a result of the successful completion of the Transaction, historical financial and operating performance as well as forward-looking information may not be indicative of actual future performance.

Outlook

During the first half of 2010, we successfully completed our Phase II Montney development program at Glacier which involved drilling horizontal wells to build production inventory and delineate our land block. Construction on Advantage's 100% working interest gas plant and gathering system expansion was completed ahead of schedule and on-budget leading to an earlier than anticipated commissioning during March 2010. The Glacier gas plant has since been operating at its design capacity with throughput rates between 50 and 55 mmcf/d. Due to stronger than expected well performance, we were able to further increase Glacier production ending the year exceeding 60 mmcf/d (10,000 boe/d).

Phase III of our Glacier development project began at the end of the second quarter of 2010 and included the drilling of 28 net (28 gross) horizontal wells and the fabrication of a new processing train to facilitate expansion of our Glacier gas plant to a production capacity of 100 mmcf/d. At this time, in addition to the 100 mmcf/d of current production, we have an incremental 100 mmcf/d (16,667 boe/d) of production capacity available and additional wells will be brought on-stream as required to offset declines and maintain production. The amount of excess field production capacity above our current plant capacity is a result of our successful drilling program which demonstrated well test rates that exceeded expectations and proved up a large portion of our undrilled acreage at Glacier.

Drilling results at our cornerstone Glacier property have demonstrated that our Montney development is among the top tier natural gas resource developments in North America. The attractive cost structure at Glacier which includes low operating costs and low royalty rates combined with a multi-decade drilling inventory provides a strong foundation to drive future development beyond 100 mmcf/d of production. With the expansion of Glacier to 100 mmcf/d now completed, a review of well performance, facility capacity and actual costs will be undertaken by Advantage to assess the timing and capital requirements for the next phase of growth at Glacier. Advantage will provide additional corporate guidance and communicate future development plans on or about mid-year 2011.

Sensitivities

The following table displays the current estimated sensitivity on funds from operations and funds from operations per share to changes in production, commodity prices, exchange rates and interest rates for 2011 including our hedging activities.

	Impact on Annual Funds from Operations	
	$000	**per share**
Natural gas		
AECO monthly price change of $1.00/Mcf	$31,400	$0.19
Production change of 6.0 mmcf/d	$7,500	$0.05
Crude oil and NGLs		
WTI price change of US$10.00/bbl	$13,100	$0.08
Production change of 1,000 bbls/d	$24,800	$0.15
$US/$Canadian exchange rate change of $0.01	$2,700	$0.02
Interest rate change of 1%	$3,400	$0.02

Additional Information

Additional information relating to Advantage can be found on SEDAR at www.sedar.com and the Corporation's website at www.advantageog.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 shareholders as it discusses a variety of subject matter including the nature of the business, description of our operations, general and recent business developments, risk factors, reserves data and other oil and gas information.

March 22, 2011

Consolidated Financial Statements

Management's Responsibility for Financial Statements

The Management of Advantage Oil & Gas Ltd. (the "Corporation") is responsible for the preparation and presentation of the consolidated financial statements together with all operational and other financial information contained in the annual report. The consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and utilize the best estimates and careful judgments of Management, where appropriate. Operational and other financial information contained throughout the annual report is consistent with that provided in the consolidated financial statements.

Management has developed and maintains a system of internal controls designed to provide reasonable assurance that all transactions are accurately and reliably recorded, that the consolidated financial statements accurately report the Corporation's operating and financial results within acceptable limits of materiality, that all other operational and financial information presented is accurate, and that the Corporation's assets are properly safeguarded.

The Audit Committee, comprised of non-management directors, acts on behalf of the Board of Directors to ensure that Management fulfills its financial reporting and internal control responsibilities. The Audit Committee is responsible for meeting regularly with Management, the external auditors, and the internal auditors to discuss internal controls over financial reporting processes, auditing matters and various aspects of financial reporting. The Audit Committee reviewed the consolidated financial statements with Management and the external auditors, and recommended approval to the Board of Directors. The Board of Directors has approved these consolidated financial statements.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, appointed by the shareholders as the external auditor of the Corporation, has audited the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. The external auditors conducted their audits in accordance with Canadian generally accepted auditing standards and have unlimited and unrestricted access to the Audit Committee.

Andy J. Mah	Kelly I. Drader
CEO	President and CFO
March 22, 2011	

Management's Report on Internal Control over Financial Reporting

The Management of Advantage Oil & Gas Ltd. (the "Corporation") is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. Under the supervision of our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, we have concluded that as of December 31, 2010, our internal control over financial reporting was effective.

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.

PricewaterhouseCoopers LLP, the Corporation's independent firm of Chartered Accountants, was appointed by the shareholders to audit and provide an independent opinion on both the consolidated financial statements and the Corporation's internal control over financial reporting as at December 31, 2010, as stated in their Auditor's Report. PricewaterhouseCoopers LLP has provided such opinion.

Andy J. Mah	Kelly I. Drader
CEO	President and CFO
March 22, 2011	

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March 22, 2011

Independent Auditor's Report

To the Shareholders of Advantage Oil & Gas Ltd.

We have completed integrated audits of Advantage Oil & Gas Ltd.'s 2010 and 2009 consolidated financial statements and its internal control over financial reporting as at December 31, 2010. Our opinions, based on our audits, are presented below.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Advantage Oil & Gas Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Advantage Oil & Gas Ltd. as at December 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Report on internal control over financial reporting

We have also audited Advantage Oil & Gas Ltd.'s internal control over financial reporting as at December 31, 2010 based on criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibility for internal control over financial reporting
Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

Auditor's responsibility
Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the company's internal control over financial reporting.

Definition of internal control over financial reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, 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.

Opinion
In our opinion, Advantage Oil & Gas Ltd. maintained, in all material respects, effective internal control over financial reporting as at December 31, 2010 based on criteria established in Internal Control - Integrated Framework issued by COSO.

PricewaterhouseCoopers LLP

Chartered Accountants

Consolidated Balance Sheets

(thousands of dollars)	December 31, 2010	December 31, 2009
Assets		
Current assets		
Accounts receivable	$ 42,276	$ 54,531
Prepaid expenses and deposits	6,488	9,936
Derivative asset (note 11)	25,157	30,829
	73,921	95,296
Derivative asset (note 11)	-	323
Fixed assets (note 3)	1,768,650	1,831,622
	$ 1,842,571	**$ 1,927,241**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 112,457	$ 111,901
Current portion of capital lease obligations (note 4)	759	1,375
Current portion of convertible debentures (note 5)	61,570	69,553
Derivative liability (note 11)	2,367	12,755
Future income taxes (note 8)	5,876	4,704
	183,029	200,288
Derivative liability (note 11)	177	1,165
Capital lease obligations	-	759
Bank indebtedness (note 6)	288,852	247,784
Convertible debentures (note 5)	72,811	130,658
Asset retirement obligations (note 7)	58,281	68,555
Future income taxes (note 8)	29,399	38,796
Other liability (note 9)	1,835	3,431
	634,384	**691,436**
Shareholders' Equity		
Share capital (note 10)	2,199,491	2,190,409
Convertible debentures equity component (note 5)	15,896	18,867
Contributed surplus (note 10)	17,754	7,275
Deficit	(1,024,954)	(980,746)
	1,208,187	**1,235,805**
	$ 1,842,571	**$ 1,927,241**

Commitments (note 13)

Subsequent events (note 14)

see accompanying Notes to Consolidated Financial Statements

On behalf of the Board of Directors of Advantage Oil & Gas Ltd:

Paul G. Haggis, Director

Andy J. Mah, Director

Consolidated Statements of Loss, Comprehensive Loss and Deficit

(thousands of dollars, except for per share amounts)	Year ended December 31, 2010	Year ended December 31, 2009
Revenue		
Petroleum and natural gas	$ 319,368	$ 343,005
Realized gain on derivatives (note 11)	45,133	86,487
Unrealized gain (loss) on derivatives (note 11)	5,381	(23,738)
Royalties	(44,640)	(49,010)
	325,242	**356,744**
Expenses		
Operating	93,875	119,022
General and administrative	37,578	39,335
Management internalization (note 10)	-	1,724
Interest	13,545	19,752
Interest and accretion on convertible debentures	15,583	16,030
Depletion, depreciation and accretion	215,780	256,882
	376,361	**452,745**
Loss before taxes	(51,119)	(96,001)
Future income tax reduction (note 8)	(8,225)	(10,855)
Income and capital taxes (note 8)	1,314	1,280
	(6,911)	(9,575)
Net loss and comprehensive loss	**(44,208)**	**(86,426)**
Deficit, beginning of year	(980,746)	(877,054)
Distributions declared	-	(17,266)
Deficit, end of year	**$ (1,024,954)**	**$ (980,746)**
Net loss per share (note 10)		
Basic and diluted	**$ (0.27)**	**$ (0.56)**

see accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(thousands of dollars)	Year ended December 31, 2010	Year ended December 31, 2009
Operating Activities		
Net loss	$ (44,208)	$ (86,426)
Add (deduct) items not requiring cash:		
Unrealized loss (gain) on derivatives	(5,381)	23,738
Equity-based compensation (note 10)	13,415	6,392
Non-cash general and administrative (note 9)	(538)	3,781
Management internalization	-	1,724
Accretion on other liability (note 9)	199	85
Accretion on convertible debentures	4,097	2,354
Depletion, depreciation and accretion	215,780	256,882
Future income tax reduction	(8,225)	(10,855)
Expenditures on asset retirement (note 7)	(6,275)	(5,437)
Changes in non-cash working capital	33,630	(21,349)
Cash provided by operating activities	**202,494**	**170,889**
Financing Activities		
Convertible debenture maturities (note 5)	(69,927)	(82,107)
Increase (decrease) in bank indebtedness	41,068	(336,933)
Reduction of capital lease obligations	(1,375)	(2,299)
Units issued, less costs (note 10)	-	96,770
Convertible debentures issued, less costs (note 5)	-	82,515
Distributions to Unitholders	-	(23,481)
Changes in non-cash working capital	(310)	500
Cash used in financing activities	**(30,544)**	**(265,035)**
Investing Activities		
Expenditures on fixed assets	(223,308)	(169,066)
Property dispositions (note 3)	69,676	245,150
Changes in non-cash working capital	(18,318)	18,062
Cash provided by (used in) investing activities	**(171,950)**	**94,146**
Net change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -
Supplementary Cash Flow Information		
Interest paid	$ 21,533	$ 31,335
Taxes paid	$ 1,200	$ 1,410

see accompanying Notes to Consolidated Financial Statements

December 31, 2010 and 2009

All tabular amounts in thousands except as otherwise indicated.

1. Business and Structure of Advantage Oil & Gas Ltd.

Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is an intermediate oil and natural gas exploration and production corporation with properties located in Western Canada. Advantage was created on July 9, 2009, through the completion of a plan of arrangement pursuant to an information circular dated June 5, 2009. Advantage Energy Income Fund (the "Fund") was dissolved and converted into the corporation, Advantage Oil and Gas Ltd., with each Trust Unit converted into one Common Share.

2. Summary of Significant Accounting Policies

The Management of the Corporation prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and all amounts are stated in Canadian dollars. The preparation of consolidated financial statements requires Management to make estimates and assumptions that affect the reported amount of assets, liabilities and equity and disclosures of contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods. The following significant accounting policies are presented to assist the reader in evaluating these consolidated financial statements and, together with the notes, should be considered an integral part of the consolidated financial statements.

(a) Consolidation and joint operations

These consolidated financial statements include the accounts of the Corporation and all subsidiaries. All intercompany balances and transactions have been eliminated.

The Corporation conducts exploration and production activities jointly with other participants. The accounts of the Corporation reflect its proportionate interest in such joint operations.

(b) Fixed assets

(i) Petroleum and natural gas properties

The Corporation follows the "full cost" method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants ("CICA") whereby all costs associated with the acquisition of and the exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in a Canadian cost centre and charged to income as set out below. Such costs include lease acquisition, drilling and completion, production facilities, asset retirement costs, geological and geophysical costs and overhead expenses related to exploration and development activities, net of any government incentive programs.

Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion and depreciation of 20% or more.

Depletion of petroleum and natural gas properties and depreciation of lease, well equipment and production facilities is provided on accumulated costs using the "unit-of-production" method based on estimated proved petroleum and natural gas reserves, before royalties, as determined by independent engineers. For purposes of the depletion and depreciation calculation, proved petroleum and natural gas reserves are converted to a common unit-of-measure on the basis of one barrel of oil or liquids being equal to six thousand cubic feet of natural gas.

The depletion and depreciation cost base includes total capitalized costs, less costs of unproved properties, plus an estimate of future development costs of proved undeveloped reserves. Costs of acquiring and evaluating unproved properties are excluded from depletion calculations until it is determined whether or not proved reserves are attributable to the properties or impairment occurs.

Petroleum and natural gas properties are evaluated in each reporting period to determine that the carrying amount in a cost centre is recoverable and does not exceed the fair value of the properties in the cost centre (the "ceiling test"). The carrying amounts are assessed to be recoverable when the sum of the undiscounted net cash flows expected from the production of

(i) Petroleum and natural gas properties (continued)

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

(ii) Furniture and equipment

The Corporation records furniture and equipment at cost and provides depreciation on the declining balance method at a rate of 20% per annum which is designed to amortize the cost of the assets over their estimated useful lives. The Corporation records leasehold improvements at cost and provides depreciation on the straight-line method over the term of the lease.

(c) Distributions

Distributions previously declared by the Fund were reported on an accrual basis.

(d) Financial instruments

The Corporation's financial instruments consist of financial assets, financial liabilities, and non-financial derivatives. All financial instruments are initially recognized at fair value on the balance sheet. Measurement of financial instruments subsequent to the initial recognition, as well as resulting gains and losses, is based on how each financial instrument was initially classified. The Corporation 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. 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 are classified as such by the Corporation.

Derivative instruments executed by the Corporation to manage market risk associated with volatile commodity prices are classified as held for trading and recorded on the balance sheet at fair value as derivative assets and liabilities. Gains and losses on these instruments are recorded as unrealized gains and losses on derivatives in the consolidated statement of loss, comprehensive loss and 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 cash provided by operating activities as a result of their recognition.

Transaction costs are frequently attributed to the acquisition or issue of a financial asset or liability. Such costs incurred on held for trading financial instruments are 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 Corporation 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.

(e) Comprehensive income

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 comprised of the cumulative amounts of OCI. To date, the Corporation does not have any adjustments in OCI and therefore comprehensive loss is currently equal to net loss.

(f) Convertible debentures

The Corporation's convertible debentures are financial liabilities consisting of a liability with an embedded conversion feature. As such, the debentures are segregated between liabilities and equity based on the residual value method, where the liability is first measured using a discount rate without the conversion feature and the remaining amount is allocated to equity. Therefore, the debenture liabilities are presented at less than their eventual maturity values. The liability and equity components are further reduced for issuance costs initially incurred. The discount of the liability component as compared to maturity value is accreted by the "effective interest" method over the debenture term and expensed accordingly. As debentures are converted to shares, an appropriate portion of the liability and equity components are transferred to share capital.

(g) Asset retirement obligations

The Corporation records the future cost associated with removal, site restoration and asset retirement costs. The fair value of the liability for the Corporation's asset retirement obligations is recorded in the period in which it is incurred, discounted to its present value using the Corporation's credit adjusted risk-free interest rate and the corresponding amount recognized by increasing the carrying amount of fixed assets. The asset recorded is depleted on a "unit-of-production" basis over the life of the reserves consistent with the Corporation's depletion and depreciation policy for petroleum and natural gas properties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to income in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligations are charged against the obligation to the extent of the liability recorded.

(h) Income taxes

The Corporation follows the "liability" method of accounting for future income taxes. Under this method future income tax assets and liabilities are determined based on differences between the carrying value of an asset or liability and its tax basis using substantively enacted tax rates and laws expected to apply when the differences reverse. The effect a change in income tax rates has on future tax assets and liabilities is recognized in net income in the period in which the change is substantively enacted.

(i) Equity-based compensation

Advantage accounts for compensation expense based on the "fair value" of rights granted under its equity-based compensation plans. Prior to converting to a corporation, the Fund had Trust Units held in escrow relating to management internalization (note 10) and a Restricted Trust Unit Plan. Subsequent to converting to a corporation, Advantage has a Restricted Share Performance Incentive Plan (note 10).

The escrowed Trust Units relating to the management internalization vested equally over three years, the period during which employees were required to provide service to receive the Trust Units. Therefore, the management internalization consideration was being deferred and amortized into income as management internalization expense over the specific vesting periods during which employee services were provided, including an estimate of future Trust Unit forfeitures.

Advantage's Restricted Share Performance Incentive Plan ("RSPIP" or the "Plan"), authorizes the Board of Directors to grant restricted shares to service providers of the Corporation, including directors, officers, employees, and consultants. The restricted share grants generally vest one-third immediately on grant date, with the remaining two-thirds vesting evenly on the following two yearly anniversary dates. Compensation cost related to the Plan is recognized as compensation expense within general and administrative expense over the service period and incorporates the share grant price, the estimated number of restricted shares to vest, and certain management estimates. As compensation expense is recognized, contributed surplus is recorded until the restricted shares vest at which time the appropriate shares are then issued to the services providers and the contributed surplus is transferred to share capital. The Plan replaced the previous Restricted Trust Unit ("RTU") plan that was in place prior to the conversion to a corporation and for which the accounting was the same.

(j) Revenue recognition

Revenue associated with the sale of petroleum, natural gas and natural gas liquids is recognized when the title and risks pass to the purchaser, normally at the pipeline delivery point for natural gas and at the wellhead for crude oil.

(k) Per share amounts

Net loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted net loss per share is calculated using the "if-converted" method to determine the dilutive effect of convertible debentures and the "treasury stock" method for equity-based compensation.

(l) Measurement uncertainty

The amounts recorded for depletion and depreciation of fixed assets, the provision for asset retirement obligation costs and related accretion expense, impairment calculations for fixed assets, derivative fair value calculations, future income tax provisions, fair values initially assigned to convertible debentures liability and equity components, as well as fair values assigned to any identifiable assets and liabilities in business combinations are based on estimates. These estimates are significant and include proved and probable reserves, future production rates, future petroleum and natural gas prices, future costs, future interest rates, future tax rates, fair value assessments, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future years could be material.

(m) Recent accounting pronouncements issued but not implemented

(i) International Financial Reporting Standards ("IFRS")

Effective January 1, 2011, Advantage will adopt IFRS.

(n) Comparative figures

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

3. Fixed Assets

December 31, 2010	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	$ 3,366,697	$ 1,600,839	$ 1,765,858
Furniture and equipment	12,188	9,396	2,792
	$ 3,378,885	**$ 1,610,235**	**$ 1,768,650**

December 31, 2009	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	$ 3,218,785	$ 1,390,784	$ 1,828,001
Furniture and equipment	11,785	8,164	3,621
	$ 3,230,570	**$ 1,398,948**	**$ 1,831,622**

In May and June 2010, Advantage closed two asset dispositions for net cash proceeds of $66.5 million, and other minor dispositions of $3.2 million (December 31, 2009 - $245.2 million). As these dispositions did not result in a change of more than 20% in the rate of depletion and depreciation, no gain or loss was recognized.

During the year ended December 31, 2010, Advantage capitalized general and administrative expenditures directly related to exploration and development activities of $9.6 million (December 31, 2009 - $10.2 million).

Costs of $30.7 million (December 31, 2009 - $38.2 million) for unproved properties have been excluded from the calculation of depletion expense, and future development costs of $1.2 billion (December 31, 2009 - $845.3 million) have been included in costs subject to depletion.

The Corporation performed a ceiling test calculation at December 31, 2010 to assess the recoverable value of fixed assets. Based on the calculation, there has been no impairment of the Corporation's petroleum and natural gas properties. The carrying amounts are recoverable as compared to the sum of the undiscounted net cash flows expected from the production of proved reserves based on the following benchmark prices:

Year	WTI Crude Oil ($US/bbl)	Exchange Rate ($US/$Cdn)	AECO Gas ($Cdn/mmbtu)
2011	$ 88.40	$ 0.932	$4.04
2012	$ 89.14	$ 0.932	$4.66
2013	$ 88.77	$ 0.932	$4.99
2014	$ 88.88	$ 0.932	$6.58
2015	$ 90.22	$ 0.932	$6.69
2016	$ 91.57	$ 0.932	$6.80
Approximate escalation rate after 2016	1.5%	-	1.5%

Benchmark prices are adjusted for a variety of factors, such as quality differentials, to determine the expected price to be realized by the Corporation when performing the ceiling test calculation.

4. Capital Lease Obligations

The Corporation has capital leases on a variety of fixed assets. Future minimum lease payments at December 31, 2010 consist of the following:

2011	$	779
Less amounts representing interest		(20)
		759
Current portion		(759)
	$	**-**

Fixed assets subject to capital leases are depreciated on a "unit-of-production" basis over the life of the reserves consistent with the Corporation's depletion and depreciation policy for petroleum and natural gas properties and is included in depletion, depreciation and accretion expense.

5. Convertible Debentures

The convertible unsecured subordinated debentures pay interest semi-annually and are convertible at the option of the holder into shares of Advantage at the applicable conversion price per share plus accrued and unpaid interest. The details of the convertible debentures including fair market values initially assigned and issuance costs are as follows:

	7.75%	8.00%	5.00%
Trading symbol	AAV.DBD	AAV.DBG	AAV.DBH
Issue date	Sep. 15, 2004	Nov. 13, 2006	Dec. 31, 2009
Maturity date	Dec. 1, 2011	Dec. 31, 2011	Jan. 30, 2015
Conversion price	$ 21.00	$ 20.33	$ 8.60
Liability component	$ 47,444	$ 14,884	$ 73,019
Equity component	2,556	26,561	13,231
Gross proceeds	50,000	41,445	86,250
Issuance costs	(2,190)	-	(3,735)
Net proceeds	**$ 47,810**	**$ 41,445**	**$ 82,515**

The convertible debentures are redeemable prior to their maturity dates, at the option of the Corporation, upon providing appropriate advance notification as per the debenture indentures. 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
7.75%	After December 1, 2009 and before December 1, 2011	$ 1,000
8.00%	After December 31, 2010 and before December 31, 2011	$ 1,025
5.00%	After January 31, 2013 and on or before January 30, 2015 Provided that Current Market Price exceeds 125% of Conversion Price	$ 1,000

5. Convertible Debentures (continued)

The balance of debentures outstanding at December 31, 2010 and changes in the liability and equity components during the years ended December 31, 2010 and 2009 are as follows:

	8.25%	8.75%	7.50%	6.50%
Trading symbol	AVN.DBB	AVN.DBF	AAV.DBC	AAV.DBE
Debentures outstanding	$ -	$ -	$ -	$ -
Liability component:				
Balance at December 31, 2008	$ 4,859	$ 29,687	$ 51,579	$ 68,807
Accretion of discount	8	152	689	746
Matured	(4,867)	(29,839)	(52,268)	-
Balance at December 31, 2009	$ -	$ -	$ -	$ 69,553
Accretion of discount	-	-	-	374
Matured	-	-	-	(69,927)
Balance at December 31, 2010	**$ -**	**$ -**	**$ -**	**$ -**
Equity component:				
Balance at December 31, 2008	$ 248	$ 852	$ 2,248	$ 2,971
Expired	(248)	(852)	(2,248)	-
Balance at December 31, 2009	$ -	$ -	$ -	$ 2,971
Expired	-	-	-	(2,971)
Balance at December 31, 2010	**$ -**	**$ -**	**$ -**	**$ -**

	7.75%	8.00%	5.00%	Total
Trading symbol	AAV.DBD	AAV.DBG	AAV.DBH	
Debentures outstanding	$ 46,766	$ 15,528	$ 86,250	$ 148,544
Liability component:				
Balance at December 31, 2008	$ 44,964	$ 15,078	$ -	$ 214,974
Issued	-	-	69,857	69,857
Accretion of discount	610	149	-	2,354
Matured	-	-	-	(86,974)
Balance at December 31, 2009	$ 45,574	$ 15,227	$ 69,857	$ 200,211
Accretion of discount	619	150	2,954	4,097
Matured	-	-	-	(69,927)
Balance at December 31, 2010	**$ 46,193**	**$ 15,377**	**$ 72,811**	**$ 134,381**
Equity component:				
Balance at December 31, 2008	$ 2,286	$ 798	$ -	$ 9,403
Issued	-	-	12,812	12,812
Expired	-	-	-	(3,348)
Balance at December 31, 2009	$ 2,286	$ 798	$ 12,812	$ 18,867
Expired	-	-	-	(2,971)
Balance at December 31, 2010	**$ 2,286**	**$ 798**	**$ 12,812**	**$ 15,896**

5. Convertible Debentures (continued)

The principal amount of 8.25% convertible debentures matured on February 1, 2009 and were settled by issuing 946,887 Trust Units. The 8.75% convertible debentures matured and were settled with $29.8 million in cash on June 30, 2009. The 7.50% convertible debentures matured and were settled with $52.3 million in cash on September 30, 2009.

The principal amount of 6.50% convertible debentures matured and were settled with $69.9 million in cash on June 30, 2010.

On December 31, 2009, 5.00% convertible debentures were issued for net proceeds of $82.5 million. The debentures have a face value of $1,000 per debenture, mature on January 30, 2015 and are convertible into shares of the Corporation at the option of the holder at a conversion price of $8.60. The debentures pay interest semi-annually in arrears on January 31 and July 31 of each year, commencing on July 31, 2010. The debentures will not be redeemable by the Corporation prior to January 31, 2013. On and after January 31, 2013 and prior to January 30, 2015, the debentures may be redeemed by the Corporation in whole or in part from time to time at the option of the Corporation at a redemption price equal to their principal amount plus accrued and unpaid interest, provided that the Current Market Price is at least 125% of the Conversion Price. In the event that a holder of debentures exercises their conversion right following a notice of redemption by the Corporation, such holder shall be entitled to receive accrued and unpaid interest, in addition to the applicable number of shares to be received on conversion.

During the years ended December 31, 2010 and 2009, there were no convertible debenture conversions.

6. Bank Indebtedness

	December 31, 2010		December 31, 2009	
Revolving credit facility	$	290,657	$	250,262
Discount on Bankers Acceptances and other fees		(1,805)		(2,478)
Balance, end of year	**$**	**288,852**	**$**	**247,784**

Advantage's credit facilities of $525 million is comprised of a $20 million extendible revolving operating loan facility from one financial institution and a $505 million extendible revolving loan facility from a syndicate of financial institutions (the "Credit Facilities"). Amounts borrowed under the Credit Facilities bear interest at a floating rate based on the applicable Canadian prime rate, US base rate, LIBOR rate or bankers' acceptance rate plus between 1.25% and 3.75% depending on the type of borrowing and the Corporation's debt to cash flow ratio. The Credit Facilities are collateralized by a $1 billion floating charge demand debenture covering all assets of the Corporation. The amounts available to Advantage from time to time under the Credit Facilities are based upon the borrowing base determined semi-annually by the lenders. The revolving period for the Credit Facilities will end in June 2011 unless extended at the option of the syndicate for a further 364 day period. If the Credit Facilities are not extended, they will convert to non-revolving term facilities due 365 days after the last day of the revolving period. The credit facilities prohibit the Corporation from entering into any derivative contract where the term of such contract exceeds three years. Further, the aggregate of such contracts cannot hedge greater than 60% of total estimated petroleum and natural gas production over two years and 50% over the third year. The Credit Facilities contain standard commercial covenants for credit facilities of this nature. The only financial covenant is a requirement for Advantage to maintain a minimum cash flow to interest expense ratio of 3.5:1, determined on a rolling four-quarter basis. This covenant was met at December 31, 2010 and 2009. Breach of any covenant will result in an event of default in which case Advantage has 20 days to remedy such default. If the default is not remedied or waived, and if required by the lenders, the administrative agent of the lenders has the option to declare all obligations under the credit facilities to be immediately due and payable without further demand, presentation, protest, days of grace, or notice of any kind. Interest payments under the debentures are subordinated to the repayment of any amounts owing under the credit facilities and are not permitted if the Corporation is in default of such credit facilities or if the amount of outstanding indebtedness under such facilities exceeds the then existing current borrowing base. For the year ended December 31, 2010, the average effective interest rate on the outstanding amounts under the facility was 5.0% (December 31, 2009 – 4.9%). Advantage also has issued letters of credit totaling $2.9 million at December 31, 2010 (December 31, 2009 – $1.3 million).

7. Asset Retirement Obligations

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas properties including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately $320 million which will be incurred between 2011 and 2070. A credit-adjusted risk-free rate of 7% and an inflation factor of 2% were used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	Year ended December 31, 2010	Year ended December 31, 2009
Balance, beginning of year	$ 68,555	$ 73,852
Accretion expense	4,493	5,297
Liabilities incurred	1,370	699
Change in estimates	4,107	16,419
Property dispositions	(13,969)	(22,275)
Liabilities settled	(6,275)	(5,437)
Balance, end of year	**$ 58,281**	**$ 68,555**

8. Income Taxes

The provision for income taxes varies from the amount that would be computed by applying the combined Canadian federal and provincial income tax rates for the following reasons:

	Year ended December 31, 2010	Year ended December 31, 2009
Loss before taxes	$ (51,119)	$ (96,001)
Canadian combined federal and provincial income tax rates	28.17%	29.20%
Expected income tax recovery at statutory rates	(14,400)	(28,032)
Increase (decrease) in income taxes resulting from:		
Amounts included in trust income	-	(5,042)
Conversion to a corporation	-	22,637
Management internalization	-	503
Change in estimated pool balances	-	(4,682)
Equity-based compensation	4,674	2,393
Difference between current and expected tax rates	696	-
Other	805	1,368
Future income tax reduction	(8,225)	(10,855)
Income and capital taxes	1,314	1,280
	$ (6,911)	**$ (9,575)**

8. Income Taxes (continued)

The components of the future income tax liability are as follows:

	December 31, 2010	December 31, 2009
Fixed assets in excess of tax basis	$ 211,355	$ 193,821
Asset retirement obligations	(14,828)	(17,418)
Non-capital tax loss carry forward	(159,358)	(127,941)
Net derivative assets	6,034	4,867
Other	(7,928)	(9,829)
Future income tax liability	**$ 35,275**	**$ 43,500**
Current future income tax liability	$ 5,876	$ 4,704
Long-term future income tax liability	29,399	38,796
	$ 35,275	**$ 43,500**

Advantage has a federal non-capital loss carry forward balance of approximately $633 million (December 31, 2009 - $508 million). These losses expire between 2023 and 2030.

The estimated tax pools in place at December 31, 2010 are as follows:

	December 31, 2010 Estimated Tax Pools ($ millions)
Undepreciated Capital Cost	$ 413
Canadian Oil and Gas Property Expenses	138
Canadian Development Expenses	331
Canadian Exploration Expenses	44
Non-capital losses	633
Other	11
	$ 1,570

9. Other Liability

In August 2009, Advantage vacated an office location as the space was no longer required. Advantage is obligated to make lease payments for the remainder of the life of the lease, which terminates in November 2012. As a result, the full fair value of future scheduled lease payments was recognized as general and administrative expense in 2009 with a corresponding liability. Fair value was determined on a present value basis, using a credit-adjusted risk free rate of 7%. In November 2010, Advantage subleased a portion of the space to a subtenant, and accordingly recognized a reduction in the liability and a corresponding recovery of general and administrative expense.

A reconciliation of the other liability is as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Balance, beginning of year	$ 3,431	$ -
Office lease liability incurred	-	3,781
Accretion expense	199	85
Reduction of liability by subleasing space	(538)	-
Liability settled	(1,257)	(435)
Balance, end of year	**$ 1,835**	**$ 3,431**

10. Shareholders' Equity

(a) Share capital

(i) Authorized

The Corporation is authorized to issue an unlimited number of shares without nominal or par value.

(ii) Issued

	Number of Shares		Amount
Balance at July 9, 2009	-	$	-
Issued on conversion to a corporation	162,197,790		2,186,802
Issued pursuant to Restricted Share Performance Incentive Plan	547,738		3,607
Balance at December 31, 2009	**162,745,528**	**$**	**2,190,409**
Issued pursuant to Restricted Share Performance Incentive Plan	1,346,481		9,082
Balance at December 31, 2010	**164,092,009**	**$**	**2,199,491**

On July 9, 2009, the Fund successfully completed the plan of arrangement pursuant to an information circular dated June 5, 2009. The Fund was dissolved and converted into the Corporation, with each Trust Unit converted into one Common Share.

(b) Unit capital

	Number of Units		Amount
Balance at December 31, 2008	142,824,854	$	2,077,760
Distribution reinvestment plan	1,263,158		5,211
Issued on maturity of debentures	946,887		4,867
Issued pursuant to Restricted Trust Unit Plan	171,093		939
Management internalization forfeitures	(7,862)		(159)
Issued, less costs net of future taxes	17,000,000		98,185
Purchased from dissenting Unitholders	(340)		(1)
Cancelled on conversion to a corporation	(162,197,790)		(2,186,802)
Balance at July 9, 2009	**-**		**-**

Concurrent with the acquisition of Ketch Resources Trust on June 23, 2006, the Fund internalized the external management contract structure and eliminated all related fees for total original consideration of 1,933,208 Trust Units initially valued at $39.1 million. These Trust Units were subject to escrow provisions over a three-year period, vesting one-third each year beginning in 2007. The management internalization consideration was deferred and amortized into income as management internalization expense over the specific vesting periods during which employee services were provided. For the year ended December 31, 2009, a total of 7,862 Trust Units issued for the management internalization were forfeited and $1.7 million was recognized as management internalization expense. At December 31, 2010 and 2009, all Trust Units in respect of management internalization were issued and none remained held in escrow.

Prior to converting to a corporation on July 9, 2009, 1,263,158 Trust Units were issued under the Premium Distribution(TM), Distribution Reinvestment and Optional Trust Unit Purchase Plan, generating $5.2 million reinvested in the Fund during the year ended December 31, 2009. The Premium Distribution(TM), Distribution Reinvestment and Optional Trust Unit Purchase Plan was discontinued on March 18, 2009, concurrent with the discontinuation of cash distributions.

The principal amount of 8.25% convertible debentures matured on February 1, 2009 and were settled by issuing 946,887 Trust Units.

On July 7, 2009, the Fund closed a bought deal financing with 17 million Trust Units issued at $6.00 each, for gross proceeds of $102 million, less $3.8 million related to $5.2 million of issuance costs net $1.4 million of related future taxes.

10. Shareholders' Equity (continued)

(c) Contributed surplus

The changes in contributed surplus during the years ended December 31, 2010 and 2009 are as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Balance, beginning of year	$ 7,275	$ 287
Equity-based compensation	7,508	3,640
Expiration of convertible debentures equity component (note 5)	2,971	3,348
Balance, end of year	**$ 17,754**	**$ 7,275**

The components of contributed surplus are as follows:

	December 31, 2010	December 31, 2009
Expired convertible debentures equity component	$ 6,606	$ 3,635
Equity-based compensation	11,148	3,640
Balance, end of year	**$ 17,754**	**$ 7,275**

(d) Equity-based compensation

Advantage has a Restricted Share Performance Incentive Plan ("RSPIP" or the "Plan") as approved by the shareholders on July 9, 2009, concurrent with the conversion to a corporation. The Plan authorizes the Board of Directors to grant restricted shares to service providers of the Corporation, including directors, officers, employees, and consultants. The number of restricted shares granted is based on the Corporation's share price return for a twelve-month period and compared to the performance of a peer group approved by the Board of Directors. The share price return is calculated at the end of each and every quarter and is primarily based on the twelve-month change in the share price. If the share price return for a twelve-month period is positive, a restricted share grant will be calculated based on the return. If the share price return for a twelve-month period is negative, but the return is still within the top two-thirds of the approved peer group performance, the Board of Directors may grant a discretionary restricted share award. The restricted share grants generally vest one-third immediately on grant date, with the remaining two-thirds vesting evenly on the following two yearly anniversary dates. The holders of restricted shares may elect to receive cash upon vesting in lieu of the number of shares to be issued, subject to consent of the Corporation. However, it is the intent to settle unvested amounts with shares. The Plan replaced the previous Restricted Trust Unit ("RTU") plan that was in place prior to the conversion to a corporation and outstanding grants under the RTU are now subject to the RSPIP.

In conjunction with the corporate conversion, a transitional award of restricted shares to service providers was approved by shareholders valued at $5.80 per share or $8.4 million and to be issued in shares. The restricted shares were granted on September 2, 2009 with the first one-quarter of the grant vesting immediately and the remaining three-quarters of the grant that will vest over the subsequent three anniversary dates.

Total equity-based compensation recorded in general and administrative expenses during the year ended December 31, 2010 was $16.1 million, including a non-cash amount of $13.4 million (December 31, 2009 - $8.1 million, including a non-cash amount of $6.4 million). During the year ended December 31, 2010, 1,346,481 shares were issued in satisfaction of grants vesting under the RSPIP. For the year ended December 31, 2009, 547,738 shares were issued subsequent to the corporate conversion in satisfaction of grants vesting under the RSPIP, and prior to the corporate conversion, 171,093 Trust Units were issued in satisfaction of grants vesting under the previous RTU plan.

10. Shareholders' Equity (continued)

The details of restricted shares granted and outstanding at December 31, 2010 are as follows:

Date Granted	Restricted Shares Granted	Restricted Shares Vested	Restricted Shares Forfeited	Restricted Shares Outstanding	Weighted average fair value at grant date
January 15, 2009	691,178	487,427	22,268	181,483	$5.49
September 2, 2009	1,453,609	741,842	9,172	702,595	$5.80
October 15, 2009	1,153,314	775,367	6,299	371,648	$7.51
January 12, 2010	779,013	269,544	4,623	504,846	$7.27
April 12, 2010	979,915	332,973	5,975	640,967	$6.97
July 12, 2010	788,092	262,689	1,074	524,329	$6.53
Total	5,845,121	2,869,842	49,411	2,925,868	$6.59

In January 2011, an RSPIP grant was made to service providers valued at $6.95 per share or $0.5 million and is to be issued in shares. No compensation expense was included in general and administrative expense as this grant occurred after December 31, 2010.

(e) Net loss per share

The calculations of basic and diluted net loss per share are derived from both net loss and weighted average shares outstanding, calculated as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Net loss		
Basic and diluted	$ (44,208)	$ (86,426)
Weighted average shares outstanding		
Basic and diluted	163,467,225	153,139,829

The calculation of diluted net loss per share excludes all series of convertible debentures for the years ended December 31, 2010 and 2009 as the impact would be anti-dilutive. Total weighted average shares issuable in exchange for the convertible debentures and excluded from the diluted net loss per share calculation for the year ended December 31, 2010 was 14,401,412 shares (December 31, 2009 – 8,165,575 shares). As at December 31, 2010, the total convertible debentures outstanding were immediately convertible to 13,019,819 shares (December 31, 2009 – 15,821,382 shares).

Restricted shares granted have been excluded from the calculation of diluted net loss per share for the years ended December 31, 2010 and 2009, as the impact would have been anti-dilutive. Total weighted average shares issuable in exchange for the restricted shares and excluded from the diluted net loss per share calculation for the year ended December 31, 2010 was 1,094,135 (December 31, 2009 – 331,281).

Management internalization escrowed Trust Units have been excluded from the calculations of diluted net loss per share for the year ended December 31, 2009 as the impact would be anti-dilutive. Total weighted average Trust Units issuable in exchange for the management internalization escrowed Trust Units and excluded from the diluted net loss per share calculation for the year ended December 31, 2009 was 207,018.

11. Financial Instruments

Financial instruments of the Corporation include accounts receivable, deposits, accounts payable and accrued liabilities, bank indebtedness, convertible debentures, other liabilities 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, bank indebtedness and other liabilities are all classified as other liabilities and similarly measured at amortized cost. As at December 31, 2010, 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 Corporation 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 December 31, 2010, the estimated fair value of the total outstanding convertible debenture obligation was $153.2 million (December 31, 2009 - $207.9 million). The fair value of the convertible debentures was determined by a Level 2 valuation model, based on discounted cash flows assuming no future conversions and continuation of current interest and principal payments as well as taking into consideration the current public trading activity of such debentures. The Corporation applied discount rates of between 5% and 7% considering current available market information, assumed credit adjustments, and various terms to maturity.

Advantage has an established strategy to manage the risk associated with changes in commodity prices by entering into derivatives, which are recorded at fair value as derivative assets and liabilities with gains and losses recognized through earnings. As the fair value of the contracts varies with commodity prices, they give rise to financial assets and liabilities. The fair values of the derivatives are determined by a Level 2 valuation model, where pricing inputs other than quoted prices in an active market are used. These pricing inputs include quoted forward prices for commodities, foreign exchange rates, volatility and risk-free rate discounting, all of which can be observed or corroborated in the marketplace. The actual gains and losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices and foreign exchange rates as compared to the valuation assumptions.

Credit Risk

Accounts receivable, deposits, and derivative assets are subject to credit risk exposure and the total carrying value of $70.4 million (December 31, 2009 - $92.0 million) reflects Management's assessment of the associated maximum exposure to such credit risk. 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 Corporation'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 Corporation only enters into derivative contracts with major banks and international energy firms to further mitigate associated credit risk.

Substantially all of the Corporation's accounts receivable are due from customers and joint operation partners concentrated in the Canadian oil and gas industry. As such, accounts receivable have been subject to normal industry credit risks. As at December 31, 2010, $2.3 million or 5.4% of accounts receivable have been outstanding for 90 days or more (December 31, 2009 - $6.9 million or 12.6% of accounts receivable). The Corporation believes that the entire balance is collectible, and in some instances the Corporation has the ability to mitigate risk through withholding production or offsetting payables with the same parties. Management has provided for an allowance for doubtful accounts of $0.2 million at December 31, 2010 (December 31, 2009 – $0.5 million).

11. Financial Instruments (continued)

Liquidity Risk

The Corporation is subject to liquidity risk attributed from accounts payable and accrued liabilities, bank indebtedness, convertible debentures, other liabilities, and derivative liabilities. Accounts payable and accrued liabilities, and derivative liabilities are primarily due within one year of the balance sheet date and Advantage does not anticipate any problems in satisfying the obligations from cash provided by operating activities and the existing credit facility. The Corporation's bank indebtedness is subject to a $525 million credit facility agreement (note 6) and does not have specific maturity dates. Under the terms of the agreement, the facility is reviewed annually, with the next review scheduled in June 2011. 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 one year term facility with the principal payable at the end of such one year term. Management fully expects that the facility will be extended at each annual review. Although the credit facility is a source of liquidity risk, the facility also mitigates liquidity risk by enabling Advantage to manage interim cash flow fluctuations. 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 Corporation 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 Corporation to mitigate liquidity risk.

Advantage has several series of convertible debentures outstanding that mature in 2011 and 2015 (note 5). Interest payments are made semi-annually with excess cash provided by operating activities. As the debentures become due, the Corporation can satisfy the obligations in cash or issue shares at a price determined in the applicable debenture indentures. This settlement alternative allows the Corporation 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 Corporation 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.

The timing of cash outflows relating to financial liabilities as at December 31, 2010 are as follows:

		Less than one year	One to three years	Four to five years	Thereafter	Total
Accounts payable and accrued liabilities		$ 112,457	$ -	$ -	$ -	$ 112,457
Capital lease obligations		779	-	-	-	779
Derivative liabilities		2,367	177	-	-	2,544
Bank indebtedness	- principal	-	290,657	-	-	290,657
	- interest	13,717	6,577	-	-	20,294
Convertible debentures	- principal	62,294	-	86,250	-	148,544
	- interest	9,179	8,625	6,469	-	24,273
Other liability		-	1,966	-	-	1,966
		$ 200,793	**$ 308,002**	**$ 92,719**	**$ -**	**$ 601,514**

Interest on bank indebtedness was calculated assuming conversion of the revolving credit facility to a one-year term facility.

11. Financial Instruments (continued)

The timing of cash outflows relating to financial liabilities as at December 31, 2009 are as follows:

		Less than one year	One to three years	Four to five years	Thereafter	Total
Accounts payable and accrued liabilities		$ 111,901	$ -	$ -	$ -	$ 111,901
Capital lease obligations		1,459	779	-	-	2,238
Derivative liabilities		12,755	1,165	-	-	13,920
Bank indebtedness	- principal	-	250,262	-	-	250,262
	- interest	12,008	6,004	-	-	18,012
Convertible debentures	- principal	69,927	62,294	-	86,250	218,471
	- interest	9,679	13,492	8,625	2,156	33,952
Other liability		-	3,803	-	-	3,803
		$ 217,729	**$ 337,799**	**$ 8,625**	**$ 88,406**	**$ 652,559**

Interest on bank indebtedness was calculated assuming conversion of the revolving credit facility to a one-year term facility.

Interest Rate Risk

The Corporation is exposed to interest rate risk to the extent that bank indebtedness is at a floating rate of interest and the Corporation's maximum exposure to interest rate risk is based on the effective interest rate and the current carrying value of the bank indebtedness. The Corporation monitors the interest rate markets to ensure that appropriate steps can be taken if interest rate volatility compromises the Corporation's cash flows. A 1% increase in interest rates for the year ended December 31, 2010 could have increased net loss for the year by approximately $1.9 million (December 31, 2009 - $3.4 million).

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 Corporation 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 loss. It is estimated that a 10% increase in the forward natural gas prices used to calculate the fair value of the natural gas derivatives at December 31, 2010 could increase net loss for the year ended December 31, 2010 by approximately $2.7 million (December 31, 2009 - $7.1 million). As well, an increase of 10% in the forward crude oil prices used to calculate the fair value of the crude oil derivatives at December 31, 2010 could increase net loss for the year ended December 31, 2010 by $4.0 million (December 31, 2009 - $4.7 million). A similar magnitude increase in the forward currency rate assumption underlying the derivatives fair value does not materially increase net loss.

As at December 31, 2010 the Corporation had the following derivatives in place:

Description of Derivative	Term	Volume	Average Price
Natural gas - AECO			
Fixed price	April 2010 to January 2011	18,956 mcf/d	Cdn$7.25/mcf
Fixed price	January 2011 to December 2011	9,478 mcf/d	Cdn$6.24/mcf
Fixed price	January 2011 to December 2011	9,478 mcf/d	Cdn$6.24/mcf
Fixed price	January 2011 to December 2011	9,478 mcf/d	Cdn$6.26/mcf
Crude oil – WTI			
Fixed price	April 2010 to January 2011	2,000 bbls/d	Cdn$69.50/bbl
Fixed price	January 2011 to December 2011	1,500 bbls/d	Cdn $91.05/bbl

As at December 31, 2010, the fair value of the derivatives outstanding resulted in an asset of approximately $25.2 million (December 31, 2009 – $31.1 million) and a liability of approximately $2.5 million (December 31, 2009 – $13.9 million). For the year ended December 31, 2010, $5.4 million was recognized in net loss as an unrealized derivative gain (December 31, 2009 - $23.7 million unrealized derivative loss) and $45.1 million was recognized in net loss as a realized derivative gain (December 31, 2009 – $86.5 million realized derivative gain).

12. Capital Management

The Corporation manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including replacement of production, funding of future growth opportunities, and pursuit of accretive acquisitions; and
- To maximize shareholder return through enhancing the share value.

Advantage monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Corporation is composed of working capital (excluding derivative assets and liabilities), bank indebtedness, convertible debentures, capital lease obligations and shareholders' equity. Advantage may manage its capital structure by issuing new shares, repurchasing outstanding shares, obtaining additional financing either through bank indebtedness or convertible debenture issuances, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend, implementing a dividend reinvestment plan, adjusting capital spending, or disposing of assets. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis. Advantage's capital structure is as follows:

	December 31, 2010	December 31, 2009
Bank indebtedness (long-term)	$ 290,657	$ 250,262
Working capital deficit (1)	64,452	48,809
Net debt	$ 355,109	$ 299,071
Shares outstanding, representing shareholders' equity	164,092,009	162,745,528
Shares closing market price ($/share)	$ 6.76	$ 6.90
Market capitalization (2)	$ 1,109,262	$ 1,122,944
Convertible debentures maturity value (current and long-term)	148,544	218,471
Capital lease obligations (long-term)	-	759
Total capitalization	**$ 1,612,915**	**$ 1,641,245**

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

(2) Market capitalization is a non-GAAP measure

The Corporation's bank indebtedness is governed by a $525 million credit facility agreement (note 6) that contains standard commercial covenants for facilities of this nature. The only financial covenant is a requirement for Advantage to maintain a minimum cash flow to interest expense ratio of 3.5:1, determined on a rolling four quarter basis. This covenant was met at December 31, 2010 and 2009. As well, the borrowing base for the Corporation's credit facilities is determined through utilizing Advantage's regular reserve estimates. The banking syndicate thoroughly evaluates the reserve estimates based upon their own commodity price expectations to determine the amount of the borrowing base. Revision or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing base of the Corporation.

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

The Corporation's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2010.

13. Commitments

Advantage has several lease commitments relating to office buildings and transportation. The estimated remaining annual minimum operating lease payments are as follows, of which $1.8 million is recognized in other liabilities:

2011	$ 11,756
2012	11,791
2013	10,576
2014	8,723
2015	2,108
	$ 44,954

14. Subsequent Events

On March 7, 2011, Advantage announced that Longview Oil Corp. ("Longview"), a wholly-owned subsidiary of the Corporation, filed a preliminary prospectus on March 4, 2011 for an initial public offering (the "Offering"), which is targeted to raise gross proceeds of $150 million prior to an over-allotment option. The closing of the Offering is expected to occur in April, 2011. Concurrent with closing of the Offering, Longview will purchase certain oil-weighted assets from Advantage (the "Transaction"), with consideration comprised of the net proceeds of the Offering, an equity ownership interest of approximately 68% (approximately 63% if the over-allotment option is exercised in full) of the common shares of Longview and proceeds of $100 million to be drawn from an independent Longview credit facility. Advantage plans to use the cash proceeds from the Transaction to reduce outstanding bank indebtedness. The Transaction is conditional upon customary industry conditions including the approval of the Board of Directors of Advantage.

15. Reconciliation of Financial Statements to United States Generally Accepted Accounting Principles

The consolidated financial statements of Advantage have been prepared in accordance with accounting principles generally accepted in Canada. Canadian GAAP, in most respects, conforms to generally accepted accounting principles in the United States ("US GAAP"). Significant differences in accounting principles between Canadian GAAP and US GAAP, as they apply to Advantage, are as described below.

(a) Equity-based compensation

Advantage accounts for compensation expense based on the fair value of the equity awards on the grant date and the initial fair value is not subsequently remeasured. Prior to converting to a corporation, the Fund's equity-based compensation consisted of a Restricted Trust Unit Plan and Trust Units held in escrow subject to service requirement provisions. Advantage's current equity-based compensation consists of a Restricted Share Performance Incentive Plan. The initial fair value is expensed over the vesting period of the grants.

Under US GAAP, the Corporation adopted ASC 718 "Stock compensation" on January 1, 2006 using the modified prospective approach and applies the fair value method of accounting for all equity-based compensation granted after January 1, 2006. Prior to converting to a corporation, a US GAAP difference existed as grants of Trust Unit compensation were considered liability awards for US GAAP and equity awards for Canadian GAAP. Under US GAAP, the fair value of a liability award is measured at the grant date and is subsequently remeasured at each reporting period. When the Trust Unit grants vested, the amount recorded as a liability was recognized as temporary equity. Upon conversion to a corporation, all equity-based compensation are now considered equity awards under both US and Canadian GAAP. Accordingly, there is no US GAAP difference with respect to equity-based compensation awards granted subsequent to conversion to a corporation.

(b) Convertible debentures and issuance costs

The Corporation applies CICA 3863 "Financial Instruments – Presentation" in accounting for convertible debentures which results in their classification as liabilities. The convertible debentures also have an embedded conversion feature which must be segregated between liabilities and equity, based on the residual value method, where the liability is first measured using a discount rate without the conversion feature and the remaining amount is allocated to equity. Therefore, the debenture liabilities are presented at less than their eventual maturity values. The liability and equity components are further reduced for issuance costs initially incurred. The discount of the liability component, net of issuance costs, as compared to maturity value is accreted by the effective interest method over the debenture term. As debentures are converted to shares, an appropriate portion of the liability and equity components are transferred to share capital. Interest and accretion expense on the convertible debentures are shown on the Consolidated Statements of Loss.

Under US GAAP, convertible debentures issued after the corporate conversion are shown as a liability. The embedded conversion feature is not accounted for separately as a component of equity. Given that the convertible debentures are carried at maturity value, it is not necessary to accrete the balance over the term of the debentures which results in an expense reduction as compared to Canadian GAAP. For the year ended December 31, 2009, the Corporation implemented retrospectively changes prescribed by ASC 470 "Debt" which became effective for years beginning after December 15, 2008. As a result, for all convertible debentures that existed prior to the corporate conversion, the instruments were divided into a liability and an equity component, similar to Canadian GAAP treatment, and opening Shareholders' Equity was increased $3.5 million.

Additionally, under US GAAP, issuance costs related to liabilities are generally shown as a deferred charge rather than netted from the carrying value and are amortized to interest expense over the term of the liability.

(c) Depletion and depreciation

For Canadian GAAP, depletion of petroleum and natural gas properties and depreciation of lease and well equipment is provided on accumulated costs using the unit-of-production method based on estimated proved petroleum and natural gas reserves, before royalties, based on forecast prices and costs.

US GAAP provides for a similar accounting methodology except that estimated proved petroleum and natural gas reserves are net of royalties and based on the first-day-of-month average prices for the prior twelve months ("constant prices"). Therefore, depletion and depreciation under US GAAP will be different since changes to royalty rates will impact both proved reserves and production and differences between constant prices as compared to forecast prices will impact proved reserve volumes. Additionally, differences in depletion and depreciation will result in divergence of net book value for Canadian GAAP and US GAAP from year-to-year and impact future depletion and depreciation expense as well as the net book value utilized for future impairment calculations.

(d) Impairment of Petroleum and Natural Gas Properties

Under Canadian GAAP, petroleum and natural gas properties are evaluated each reporting period to determine that the carrying amount is recoverable and does not exceed the fair value of the properties in the cost centre (the "ceiling test"). The carrying amounts are assessed to be recoverable when the sum of the undiscounted net cash flows expected from the production of proved reserves, the lower of cost and market of unproved properties and the cost of major development projects exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted net cash flows expected from the production of proved and probable reserves, the lower of cost and market of unproved properties and the cost of major development projects of the cost centre. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate. For Canadian GAAP purposes, Advantage has not recognized an impairment loss since inception.

Under US GAAP, the carrying amounts of petroleum and natural gas properties, net of deferred income taxes, shall not exceed an amount equal to the sum of the present value of estimated net future after-tax cash flows of proved reserves at constant prices and costs computed using a discount factor of ten percent plus the lower of cost or estimated fair value of unproved properties. Any excess is charged to expense as an impairment loss through depletion, depreciation and accretion expense. Under US GAAP, Advantage recognized impairment losses of $49.5 million in 2001 ($28.3 million net of tax), $535.4 million in 2006 ($477.8 million net of tax), $1,047.5 million in 2008 ($770.8 million net of tax), and $303.9 million in 2009 ($227.4 million net of tax). Impairment losses decrease net book value of petroleum and natural gas properties which reduces depletion and depreciation expense subsequently recorded as well as future potential impairment calculations.

(e) Income tax

The future income tax accounting standard under Canadian GAAP is substantially similar to the deferred income tax approach as required by US GAAP. Pursuant to Canadian GAAP, substantively enacted tax rates are used to calculate future income tax, whereas US GAAP applies enacted tax rates. However, there were no tax rate differences for the years ended December 31, 2010 and 2009. The differences between Canadian GAAP and US GAAP relate to future income tax impacts on other GAAP differences.

Under Canadian GAAP as at December 31, 2010, the Corporation's carrying value of its net assets exceeded its tax bases and resulted in a future income tax liability. Adjustments under US GAAP result in a large future income tax recovery and a future income tax asset, as the impairment significantly lowered the Corporation's fixed assets carrying value under US GAAP.

(f) Goodwill

Under Canadian and US GAAP, the Corporation is required to test the carrying amount of goodwill at each balance sheet reporting date and the methodologies are substantially the same. However, the carrying value of the reporting unit (the Corporation) under US GAAP is much lower due to the impairments to fixed assets required under US GAAP (note 15(d)). For the year ended December 31, 2008, goodwill was determined to be fully impaired, and was therefore written down to Nil under Canadian GAAP. However, under US GAAP, the fair value of the reporting unit (the Corporation) was in excess of its carrying values and no impairment of goodwill was recorded for the year ended December 31, 2008. For the years ended December 31, 2010 and 2009, the fair value of the reporting unit continued to be in excess of carrying values as determined under US GAAP and no impairment of goodwill was recorded.

(g) Shareholders' equity

Since converting to a corporation on July 9, 2009, Shareholders' Equity of Advantage consists primarily of shares. For both Canadian and US GAAP, the shares are considered permanent equity and presented as a component of Shareholders' equity.

Prior to conversion to a corporation, the Trust Units of the Fund were redeemable at any time on demand by the holders, which was required for the Fund to retain its Canadian mutual fund trust status. The holders were entitled to receive a price per Trust Unit equal to the lesser of: (i) 85% of the simple average of the closing market prices of the Trust Units, on the principal market on which the Trust Units were quoted for trading, during the 10 trading-day period commencing immediately after the date on which the Trust Units were surrendered for redemption; and (ii) the closing market price on the principal market on which the Trust Units were quoted for trading on the redemption date. For Canadian GAAP purposes, the Trust Units were considered permanent equity and were presented as a component of Unitholders' equity.

Under US GAAP, it is required that equity with a redemption feature be presented as temporary equity between the liability and equity sections of the balance sheet. Therefore, prior to the corporate conversion temporary equity was shown at an amount equal to the redemption value based on the terms of the Trust Units and all components of Unitholders' equity related to Trust Units was eliminated. Changes in the redemption value from year-to-year was charged to deficit. For the year ended December 31, 2009, shareholders' equity was increased by $130.8 million corresponding to changes in the Trust Units redemption value from January 1, 2009 to July 8, 2009. On July 9, 2009, the entire recorded value of temporary equity of $660.1 million was transferred to permanent equity concurrent with the corporate conversion.

A continuity schedule of significant equity accounts for each reporting period is required disclosure under US GAAP. The following table is a continuity of shareholders' equity, the Corporation's only significant equity account:

Shareholders' Equity (thousands of Canadian dollars)	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Balance, beginning of year (previously reported)	$ 115,469	$ (451,946)
Effect on opening Shareholders' Equity of implementation of ASC 470 - note 15(b)	-	3,494
Balance, beginning of year (restated)	$ 115,469	$ (448,452)
Net income (loss) and comprehensive income (loss)	65,050	(216,595)
Distributions declared	-	(17,266)
Change in redemption value of temporary equity	-	130,751
Temporary equity transferred to share capital	-	660,145
Shares issued pursuant to Restricted Share Performance Incentive Plan	9,082	3,607
Equity-based compensation	7,508	3,279
Balance, end of year	**$ 197,109**	**$ 115,469**

(h) Balance Sheet Disclosure

US GAAP requires disclosure of certain line items for balances that would be aggregated in the Canadian GAAP financials. The following are the additional line items to be disclosed for accounts receivable and accounts payable:

(thousands of Canadian dollars)	December 31, 2010	December 31, 2009
Accounts receivable		
Trade receivables	$ 42,276	$ 54,531
Other receivables	-	-
Total accounts receivable	**$ 42,276**	**$ 54,531**
Accounts payable and accrued liabilities		
Accounts payable	$ 42,340	$ 17,202
Accrued liabilities	70,117	94,699
Other payables	-	-
Total accounts payable and accrued liabilities	**$ 112,457**	**$ 111,901**

(i) Statements of cash flow

The differences between Canadian GAAP and US GAAP have not resulted in any significant variances concerning the statements of cash flows as reported.

The application of US GAAP would have the following effect on net income (loss) as reported:

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) (thousands of Canadian dollars)	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Net loss - Canadian GAAP, as reported	$ (44,208)	$ (86,426)
US GAAP Adjustments:		
General and administrative - note 15 (a)	-	358
Management internalization - note 15 (a)	-	1,026
Interest and accretion on convertible debentures - note 15 (b)	2,191	-
Depletion, depreciation and accretion - notes 15 (c) and (d)	143,043	(153,711)
Future income tax - note 15 (e)	(35,976)	22,158
Net income (loss) and comprehensive income (loss) - US GAAP	**$ 65,050**	**$ (216,595)**

The application of US GAAP would have the following effect on the balance sheets as reported:

	December 31, 2010		**December 31, 2009**	
Consolidated Balance Sheets (thousands of Canadian dollars)	**Canadian GAAP**	**US GAAP**	**Canadian GAAP**	**US GAAP**
Assets				
Deferred charge - note 15 (b)	$ -	$ 3,851	$ -	$ 5,310
Fixed assets, net - notes 15 (c) and (d)	1,768,650	270,727	1,831,622	190,656
Future income taxes - note 15 (e)	-	347,642	-	374,221
Goodwill - note 15 (f)	-	120,271	-	120,271
Liabilities and Shareholders' Equity				
Current portion of convertible debentures - note 15 (b)	61,570	61,847	69,553	69,553
Bank indebtedness - note 15 (b)	288,852	289,454	247,784	248,808
Convertible debentures - note 15 (b)	72,811	86,250	130,658	147,602
Future income taxes - note 15 (e)	29,399	-	38,796	-
Shareholders' equity - note 15 (g)	1,208,187	197,109	1,235,805	115,469

Corporate Information

Directors

Stephen E. Balog [1][2]
Kelly I. Drader
Paul G. Haggis[1]
John A. Howard [2][3]
Andy J. Mah
Ronald A. McIntosh [1][2]
Sheila H. O'Brien [2][3]
Carol D. Pennycook [1][3]
Steven Sharpe

[1] Member of Audit Committee
[2] Member of Reserve Evaluation Committee
[3] Member of Human Resources, Compensation & Corporate Governance Committee

Officers

Andy J. Mah, CEO
Kelly I. Drader, President and CFO
Patrick J. Cairns, Senior Vice President
Craig Blackwood, Vice President, Finance
Weldon M. Kary, Vice President, Geosciences and Land
Neil Bokenfohr, Vice President, Exploitation

Corporate Secretary

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

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, Canada Branch
Alberta Treasury Branches
HSBC Bank Canada
BNP Paribas (Canada)

Independent Reserve Evaluators

Sproule Associates Limited

Legal Counsel

Burnet, Duckworth and Palmer LLP

Transfer Agent

Computershare Trust Company of Canada

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
bcf	- billion cubic feet
tcf	- trillion cubic feet
gj	- gigajoules
NGLs	- natural gas liquids
WTI	- West Texas Intermediate

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Toronto Stock Exchange Trading Symbols

Shares: AAV
7.75% Convertible Debentures: AAV.DBD
8.00% Convertible Debentures: AAV.DBG
5.00% Convertible Debentures: AAV.DBH

New York Stock Exchange Trading Symbol

Shares: AAV