ADVANCED ENGINE COMPONENTS LTD

(ASX code ACE)

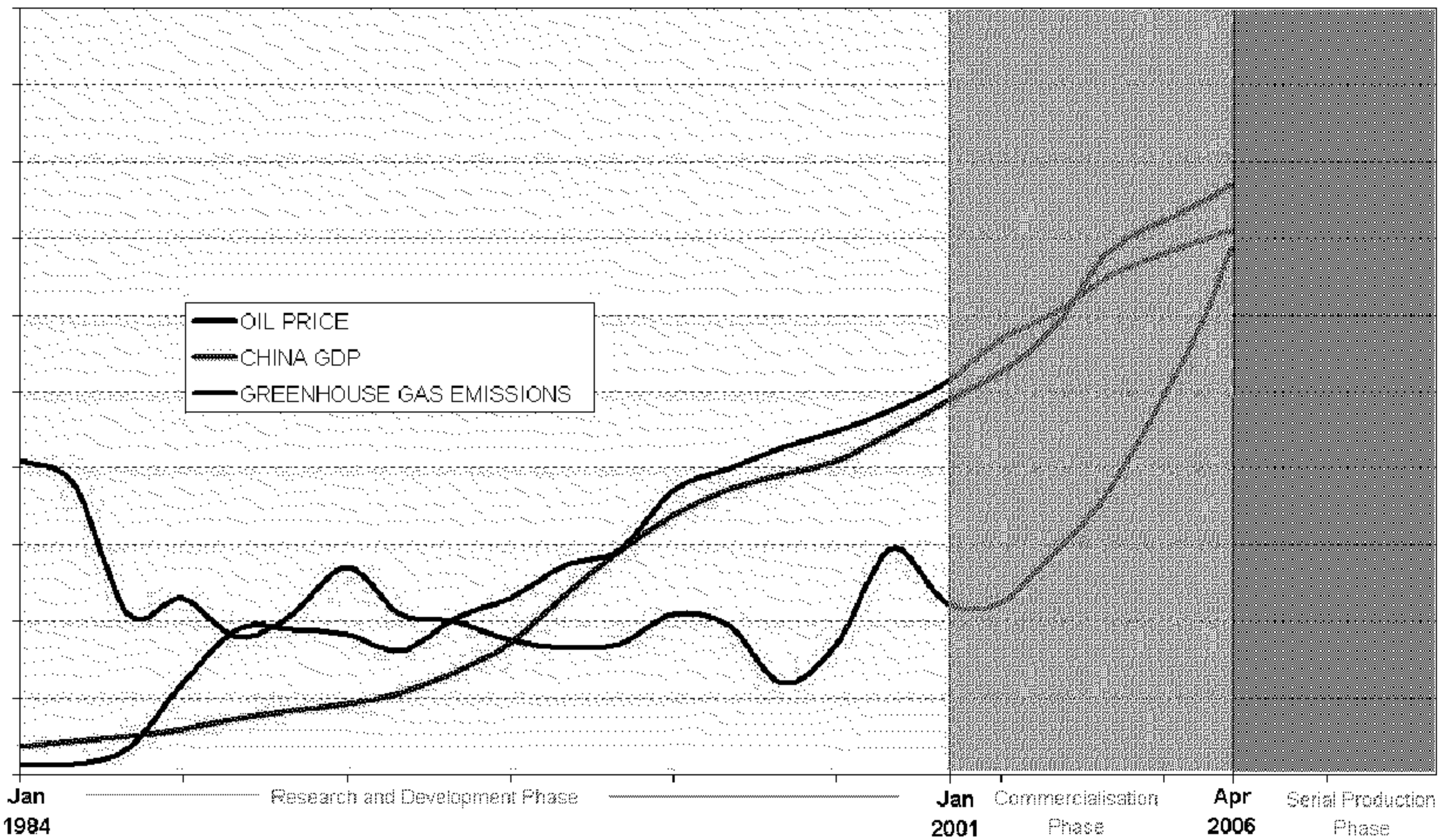
Company Update

MAY 2006

World leader in natural gas engine technology for trucks and buses.

- Patented technology
- Enable OEM's to produce NG engines with:-
  - low emission levels
  - operating cost savings
  - same power, torque and driveability as diesel

WORLD TRENDS DRIVING NG VEHICLE DEMAND



ACE Natural Gas Vehicle System (NGVS) Progress

THE NATURAL GAS VEHICLE MARKET

By 2015, NGVs will account for 25% of all vehicles in the world

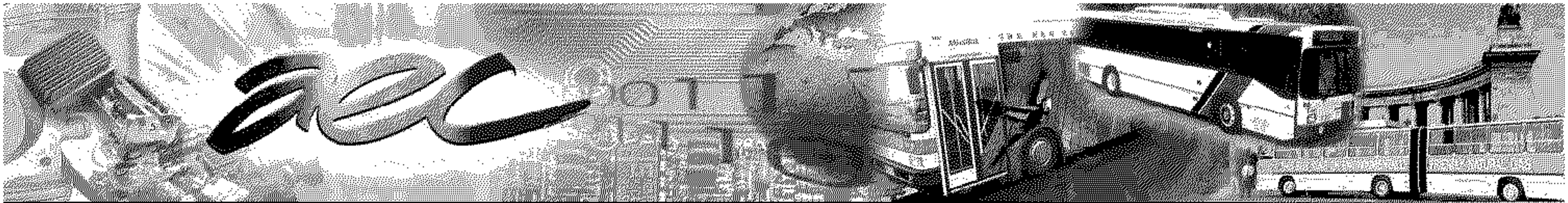
Source: International Association for Natural Gas Vehicles

As at December 2005, more than 5 million NGVs and over 7,000 refuelling stations in use globally.

AEC IS A LEADER IN THIS MARKET

IRISBUS - FRANCE (2002 -)

- Renault engines
- 600 buses operating in 21 cities in France
- Travelled over 90 million kilometres since 2002
- Revenue generated to January 2006 of A$10M
- Spare parts for 20 years
- Forecast sales 2006/2007 A$0.5 million



FIRST AUTO WORKS (FAW) - CHINA (2003 -)

- One of the world's largest truck producers and China's largest vehicle manufacturer
- 3 engine development programmes completed
- Euro 03 certification July 2005
- First buses/trucks commissioned February/March 2006
- First commercial sales April 2006
- Planning 100 to 150 NG engines per month
- Forecast NGVS kit sales 2006/2007 A$4 million

Chengdu Bus Company
Annual Spring Product Launch April 2006
– Chengdu buses on FAW chassis with FAW/ACE NG engines

FAW/ACE NG truck for transport of coal in Inner Mongolia

The truck, with a load in excess of its 25 tonne capacity, can pull away from a standing start in third gear.

WEICHAI - CHINA (2004 -)

- One of the largest diesel producers in China – 80,000 engines per year
- Over 70% market share in the heavy duty engine market
- First engine development programme completed
- First vehicle certified and commissioned April 2006
- Commercial sales to commence October/November 2006
- Forecast NGVS kit sales 2006/2007 A$2.4 million

MOTIVE ENERGY – AUSTRALIA (2005 -)

- Australian Company to integrate supply of
  - natural gas
  - refuelling facilities
  - fleet management services
  - engine products
  - vehicles
- Major shareholder Alinta Asset Management No. 2
- Three Isuzu truck sizes certified and commissioned
- Commercial sales to commence August 2006
- Forecast NGVS kit sales 2006/2007 A$1.9 million

ACP - PAKISTAN (2005 -)

- Pakistan 3rd largest NG user in world
- ACP builds NG buses and trucks
- Using FAW/AEC NG engines
- First engine available for Shell trial
- Further engines ordered
- Commercial sales to commence December 2006
- Forecast NGVS kit sales 2006/2007 A$1.2 million

SWARAJ MAZDA - INDIA (2006 -)

- Joint venture with Vialle Alternative Fuel Systems
- Vialle has produced over 20,000 LPG vehicles
- Swaraj Mazda base engine due June 2006
- Development to be completed September quarter 2006
- Demonstration NG vehicle available by December 2006
- Likely production 2,000 vehicles per annum
- Commercial sales to commence February 2007
- Forecast NGVS kit sales 2006/2007 A$1.3 million

OTHER SALES

- Ongoing service and supply
- Engine development
- Spare parts
- Patented injectors
- Forecast sales 2006/2007 A$0.5 million

IMMEDIATE OPPORTUNITIES

- Myanmar
- Bangladesh
- Iran
- Thailand
- Malaysia
- Hythane
- Other

FINANCIAL FORECAST 2006/2007

	A$M
Forecast sales	11.8
Margin	5.2
Overheads	3.0
EBITDA	2.2
Int, Dep'n, Amortisation	0.7
NPBT	1.5

C/fwd Tax Losses A$18M

BALANCE SHEET – PRO FORMA

	A$M
Current Assets	
Cash	1.8
Debtors/Inventory	1.2
	3.0
Current Liabilities	
Creditors	0.5
Interest bearing	1.6
Provisions	0.4
	2.5
Working Capital	0.5
Non Current Assets	
Plant and equipment	0.9
Investments - ME	0.7
Pre-production expenses	1.4
	3.0
Non Current Liabilities	
Convertible note	1.7
Net Assets	1.8

SHARE CAPITAL

Shares on issue 100,469,188

Options

5,625,000	20c June 2008
20,000,000	20c June 2008*
1,250,000	19c December 2008

*subject to 30 day VWAP of 50c

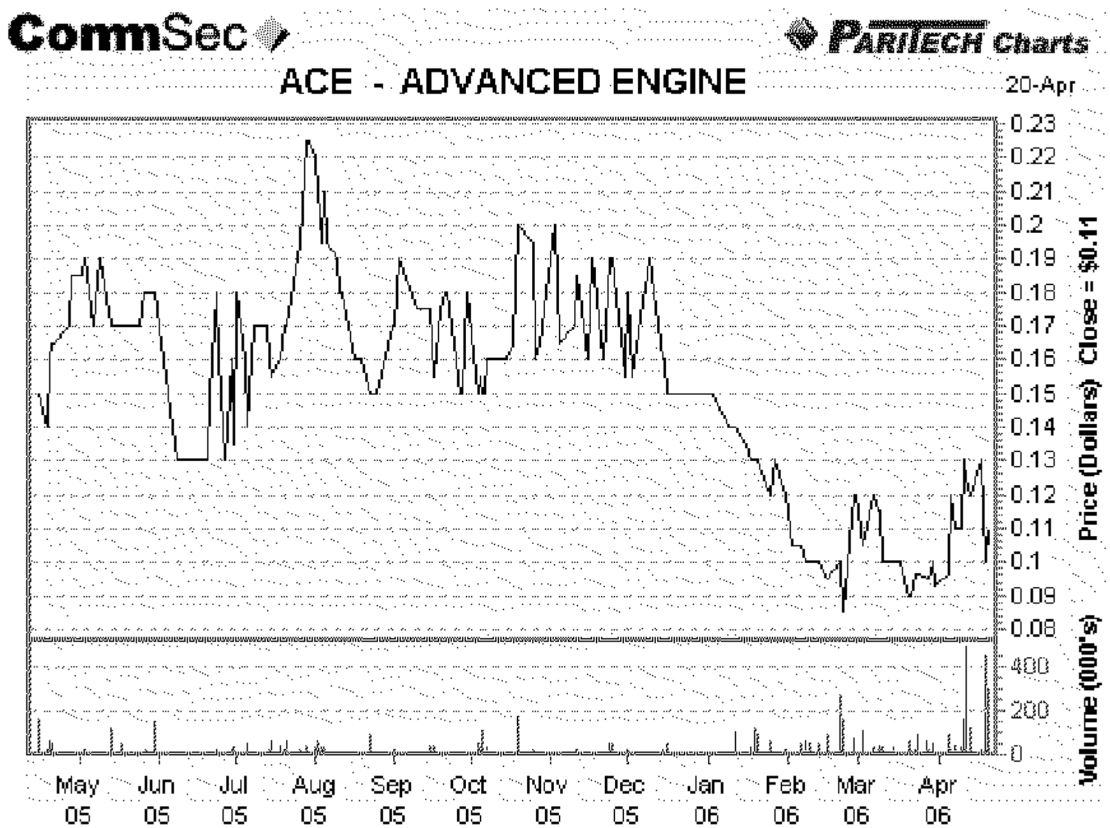
Convertible Notes

3,000,000 $1.00 convertible at 40c per share December 2009

MAJOR SHAREHOLDERS

698 Capital	55.1%
Lim Asia	14.9%
Chemco Pty Ltd	3.0%
Seibu Pty Ltd	1.6%
Jildane Pty Ltd	1.4%

SHARE PRICE


CommSec
PARITECH Charts
ACE - ADVANCED ENGINE
20-Apr
0.23
0.22
0.21
0.2
0.19
0.18
0.17
0.16
0.15
0.14
0.13
0.12
0.11
0.1
0.09
0.08
400
200
0
Price (Dollars) Close = $0.11
Volume (000's)
May 05
Jun 05
Jul 05
Aug 05
Sep 05
Oct 05
Nov 05
Dec 05
Jan 06
Feb 06
Mar 06
Apr 06

SHORT TERM FUNDING REQUIRED

Total	A$1.5M
698 Capital 50%	A$0.75M
Third parties	A$0.75M

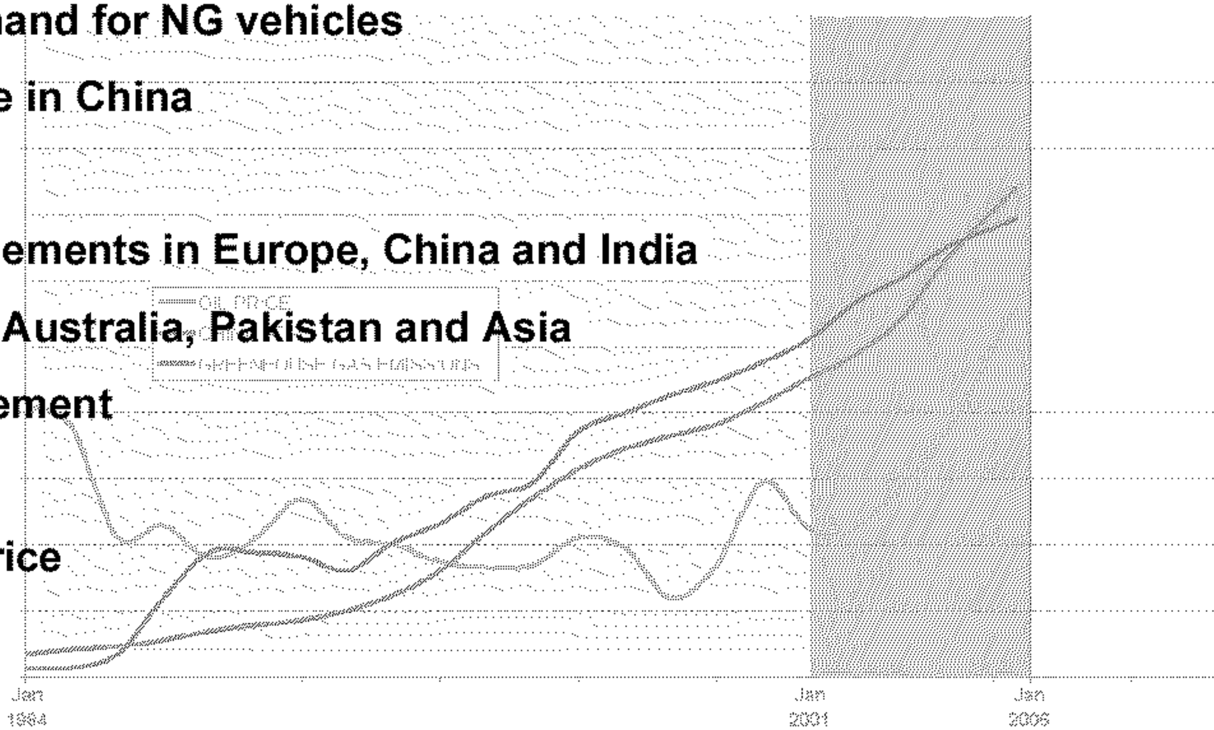
- Repayment on 31 October 2006
- Interest 9% quarterly in arrears
- Funds held in Trust against budget
- For 6 months working capital
- Third party right to convert to capital

LONG TERM FUNDING

- Ongoing cash requirement to finance sales growth:-
  - inventory build up
  - account receivable build up
  - pre-payments for long lead time supplies
  - short term funding repayment
- Expected cash flow positive March/April 2007
- Anticipated funding required April 2006 to April 2007 A$3.5 million
- Required future equity funding dependent:-
  - any conversion short term third party debt to equity
  - amount raised through SPP
  - timing and size of sales build up
  - operational cash flow
  - Government grants
  - collection of disputed amounts owing
  - availability of debt funding

SUMMARY

- Proven world leading patented technology and products
- Increasing world demand for NG vehicles
- Infrastructure in place in China
- Now in production
- Strategic OEM arrangements in Europe, China and India
- Strategic alliances in Australia, Pakistan and Asia
- Stable strong management
- Low third party debt
- Undervalued share price



AEC Natural Gas Vehicle System (NGVS) Progress

AEC

SUPPLYING THE BOOMING ALTERNATIVE FUELS MARKET

www.advancedengine.com

email: shares@advancedengine.com

phone: +61 8 9209 6900

fax: +61 8 9209 6999