



ADVANCED ENGINE COMPONENTS LIMITED

ACN 009 081 770

NOTICE OF GENERAL MEETING AND EXPLANATORY STATEMENT TO SHAREHOLDERS

TIME: 11.00AM

DATE: TUESDAY, 11 MAY 2010

**PLACE: ADVANCED ENGINE COMPONENTS LIMITED
14 ENERGY STREET, MALAGA, WA**

IMPORTANT INFORMATION

This is an important document that should be read in its entirety. If you do not understand it, or any part of it, you should consult with your professional advisers without delay.

You are encouraged to attend the meeting, but if you cannot, you are requested to complete and return the enclosed Proxy Form without delay to
Advanced Engine Components Limited at 14 Energy Street, Malaga WA 6090
or by mail to Advanced Engine Components Limited, PO Box 3126, Malaga WA 6090
or by facsimile on facsimile number (+61 8) 9209 6999.

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ADVANCED ENGINE COMPONENTS LIMITED

ACN 009 081 770

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that the General Meeting of the Shareholders of Advanced Engine Components Limited ("ACE" or "the Company") will be held as specified below:

TIME: 11.00am
DATE: Tuesday, 11 May 2010
PLACE: Advanced Engine Components Limited, 14 Energy Street, Malaga, WA

This is an important document that should be read in its entirety.
If you do not understand it, you should consult with your professional advisers without delay.

If you wish to discuss any aspects of this document with the Company, please contact
Mr Antony Middleton, Managing Director, on telephone +61 8 9209 6900.

Terms and abbreviations used in this Notice of General Meeting and the Explanatory Statement are defined in Section 5 of the accompanying Explanatory Statement.

RESOLUTION 1: Ratification of Share Placement

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

"That pursuant to Listing Rule 7.4 and for all other purposes, Shareholders ratify the placement of 21,818,182 Shares at 5.5 cents each raising \$1,200,000 to Mr Nathan on 18 February 2010 on the terms and conditions set out in the Explanatory Statement".

VOTING EXCLUSION STATEMENT: The Company will disregard any votes cast on this Resolution by Mr Nathan and associates.

RESOLUTION 2: Issue of Options to 698 Capital (or nominee)

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

"That pursuant to Listing Rule 10.11 and Section 208 of the Corporations Act and for all other purposes, that approval be given to issue 3,000,000 Options exercisable at 5.5 cents each on or before 30 November 2011 to 698 Capital (or nominee) on the terms and conditions set out in the Explanatory Statement."

VOTING EXCLUSION STATEMENT: The Company will disregard any votes cast on this Resolution by 698 Capital and its associates (including 698 Capital International).



VOTING EXCLUSION STATEMENTS

Where a voting exclusion applies, the Company will not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or where it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

EXPLANATORY STATEMENT

Shareholders are referred to the Explanatory Statement accompanying and forming part of this Notice of General Meeting for further information in relation to the Resolutions.

PROXIES

Members are encouraged to attend the meeting, but if you are unable to attend the meeting, we encourage you to complete and return the enclosed proxy form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has the right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

To vote by proxy, please complete and sign the Proxy Form enclosed with this Notice of the General Meeting as soon as possible and either:

- send the Proxy Form by facsimile to the Company on +61 8 9209 6999;
- post the Proxy Form to the Company at PO Box 3126, Malaga WA 6090; or
- deliver the Proxy Form to the registered office of the Company at 14 Energy Street, Malaga WA 6090.

Proxy Forms must be received by the Company not later than 48 hours before the time specified for the commencement of the General Meeting.

DATE FOR DETERMINING SHAREHOLDERS

For the purposes of regulation 7.11.37 of the Corporations Act, the Directors have set 9.00am (WST) on Monday 10 May 2010 as the time and date to determine who are the registered Shareholders in the Company for the purposes of the General Meeting. Accordingly Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the General Meeting.

Dated: 22 March 2010

By order of the Board

A handwritten signature in black ink, appearing to read 'Graham Keys', is positioned above the name and title of the signatory.

Graham Keys
Chairman



EXPLANATORY STATEMENT TO SHAREHOLDERS ADVANCED ENGINE COMPONENTS LIMITED ACN 009 081 770

This Explanatory Statement has been prepared to assist Shareholders of the Company in understanding the business to be put to Shareholders for their consideration at the forthcoming General Meeting of the Company. The Directors recommend that you read this Explanatory Statement and attend the General Meeting.

1. RESOLUTION 1: RATIFICATION OF SHARE PLACEMENT

This Resolution seeks Shareholder approval pursuant to Listing Rule 7.4 to ratify the placement of 21,818,182 Shares at 5.5 cents each to Mr Nathan on 18 February 2010 raising \$1,200,000. Following completion of the share placement, Mr Nathan was appointed a non-executive director of the Company.

Listing Rule 7.4 provides that a company can seek ratification of security issues made within the previous 12 month period. The issue must not have breached the Rule 7.1 limit at the time. Ratification through subsequent shareholder approval will have the effect of reinstating the 15% limit in Rule 7.1.

The Company confirms that the issue of 21,818,182 Shares was made under the Company's 15% capacity and did not breach Listing Rule 7.1. Shareholder approval is now being sought to reinstate the Company's ability to issue up to 15% of its issued capital without shareholder approval under Listing Rule 7.1.

In accordance with Listing Rule 7.5 the following information is provided:

Number of Securities: 21,818,182 Shares.

Issue Price: 5.5 cents per Share.

Terms: The Shares rank equally in all respects with the existing issued shares of the Company.

Allottee: Mr Vivekananthan M.V. Nathan.

Use of Funds: The placement of Shares raised \$1,200,000 as working capital for the Company.

Voting Exclusion: an appropriate voting exclusion statement is included in the Notice of General Meeting.

2. RESOLUTION 2: ISSUE OF OPTIONS TO 698 CAPITAL (OR NOMINEE)

Resolution 2 seeks Shareholder approval pursuant to Listing Rule 10.11 and section 208 of the Corporations Act to issue 3,000,000 Options to 698 Capital (or nominee).

As announced on 28 January 2010, 698 Capital agreed to extend repayment of the \$3,000,000 owing by the Company under the expired convertible notes to 31 December 2011. The non-current loan retained the existing fixed and floating charge over the assets of the Company and retained the same interest rate being the Better Business Loan Reference Rate as quoted by the Commonwealth Bank plus 1%.

In connection with the extension of the loan the Company agreed, subject to Shareholder approval, to issue 3,000,000 Options exercisable at 5.5 cents each on or before 30 November 2011 to 698 Capital (or nominee). If Shareholders do not approve the issue of the Options, the interest rate on the loan will be increased by 1% and charged retrospectively from 1 February 2010. The exercise price is consistent with the recent placement under Resolution 1 and the rights issue by the Company. The Options will be unlisted and therefore for 698 Capital to realise its investment it must exercise the Options to obtain tradeable shares. In doing so, the Company will benefit from the exercise monies.



Listing Rule 10.11 provides that a company must not issue equity securities to a Related Party without the approval of shareholders. Pursuant to Listing Rule 7.2 exception 14, where approval under Listing Rule 10.11 is obtained, approval is not required under Listing Rule 7.1 and the issue of securities will not be included in the Company's 15% limit.

Chapter 2E of the Corporations Act regulates the provision of financial benefits to related parties by a public company. Section 208 of the Corporations Act prohibits a public company giving a financial benefit to a related party unless the company obtains the prior approval of Shareholders in general meeting or an exception applies. A "financial benefit" is defined in the Corporations Act in broad terms and includes a public company issuing securities.

The following information is provided in accordance with Listing Rule 10.13 and section 219 of the Corporations Act to help shareholders assess the merits of this Resolution:

Maximum Number: 3,000,000 Options.

Issue Price: The Options will be granted for nil consideration.

Allottee: 698 Capital (or nominee).

Related Party/Relationship: Mr Albert Pun, a Director of the Company, is a director of 698 Capital, the major shareholder of the Company. For the purposes of this Resolution, 698 Capital is deemed to be a Related Party of the Company.

Terms: The Options will be unlisted and exercisable at 5.5 cents each on or before 30 November 2011. Full terms and conditions are set out in Annexure A to this Explanatory Statement.

Allotment Date/Date of Issue: It is likely that the allotment and issue will occur on a single date being no later than 1 month after the General Meeting or such later date to the extent permitted by an ASX waiver of the Listing Rules.

Intended Use of Funds: No funds will be raised through the issue of the Options. Any funds raised from the exercise of the Options will be used as working capital for the Company.

Voting Exclusion: An appropriate voting exclusion statement is included in the Notice of General Meeting.

Nature of the Financial Benefit: The issue of 3,000,000 Options.

Value of the Financial Benefit: The Options proposed to be issued pursuant to this Resolution are being issued for nil consideration. The quantum of the benefit attributable to the Options is dependent, in part, on the price at which the underlying Shares can be traded on ASX. The indicative value of the Options has been determined under a theoretical pricing model in Section 2.1 below to be 1.63 cents per Option for a total indicative value of \$48,900. The Options will only have value if on the date that the Options are exercised, the market price of the Shares exceeds the exercise price of the Options. In these circumstances, the holder of the Options will obtain a financial benefit equivalent to the difference between the market price and exercise price at that time.

Existing Interest in Securities: 698 Capital is the major shareholder of the Company with 64,423,731 Shares at the date of this Notice of Meeting. As announced by the Company on 23 February 2010, 698 Capital has agreed to accept 20,000,000 Shares of its entitlement under the rights issue which will increase its shareholding to 84,423,731 Shares upon completion of the rights issue.

698 Capital also holds a total of 15,125,000 options at the date of this Notice of Meeting as follows:

- 5,000,000 unquoted options exercisable at 20 cents on or before 31 December 2010.
- 375,000 unquoted options exercisable at 4.3 cents on or before 30 November 2011.
- 375,000 unquoted options exercisable at 4.4 cents on or before 30 November 2011.
- 1,750,000 unquoted options exercisable at 4.7 cents on or before 30 November 2011.
- 1,375,000 unquoted options exercisable at 3.6 cents on or before 30 November 2011.
- 1,375,000 unquoted options exercisable at 3.7 cents on or before 30 November 2011.
- 1,375,000 unquoted options exercisable at 7.1 cents on or before 30 November 2011.
- 1,375,000 unquoted options exercisable at 6.2 cents on or before 30 November 2011.
- 1,000,000 unquoted options exercisable at 5.65 cents on or before 30 November 2011.
- 375,000 unquoted options exercisable at 5.9 cents on or before 30 November 2011.
- 375,000 unquoted options exercisable at 5.4 cents on or before 30 November 2011.
- 375,000 unquoted options exercisable at 5.3 cents on or before 30 November 2011.



Dilution Effect: The initial issue of the 3,000,000 Options will have no dilution effect. However, upon the exercise of the Options, the effect would be to dilute existing shareholders interests by approximately 1.7% based on the issued shares at the date of this Explanatory Statement and assuming no other securities are issued by the Company prior to the exercise of the Options.

Other Interests: 698 Capital has a loan of \$3,000,000 to the Company on which interest of 9.74%pa is payable quarterly in arrears. In addition, 698 Capital has provided a financing facility to the Company currently drawdown to \$4,263,466 on which interest of 11.68%pa is payable quarterly in arrears.

Directors Recommendations and Interests in Outcome of the Resolution: Albert Pun declines to make a recommendation to Shareholders in relation to the issue of the Options as he has an interest in the outcome of this Resolution as he is a director of 698 Capital. Each of the other Directors of the Company, who have no material interest in the outcome of the Resolution, consider that the proposed issue of Options in connection with the extended loan provided by 698 Capital to the Company is reasonable and recommend that Shareholders vote in favour of this Resolution.

2.1 Indicative Value of Options

In accordance with a policy requirement of ASIC, the Options have been valued using the Black & Scholes pricing model based on the following key inputs and assumptions:

- exercise price of 5.5 cents;
- expiry date of 30 November 2011;
- valuation date of 19 March 2010;
- grant date of 12 May 2010;
- market price of 4.8 cents;
- risk free interest rate of 4.88% (based on yield of 2-year Australian Government debt securities); and
- volatility factor of 71% (based on the volatility of the Company's share price for the last 12 months).

The above parameters result in a derived value of approximately 1.63 cents per Option. It should be noted that the theoretical assumptions of the Black & Scholes model may result in a potentially misleading valuation of the Options and the value ascribed to the Options may not necessarily represent the market price of the Options at the date of the valuation.

3. SHARE PRICE HISTORY

The highest and lowest closing market sale prices of Shares on ASX in the last 12 months prior to the date of this Explanatory Statement were:

	Price	Date
High	9.3 cents	23 October 2009
Low	3.1 cents	7 July 2009
Last Sale	4.8 cents	19 March 2010

4. ASX AND ASIC

The fact that the Notice of General Meeting and Explanatory Statement have been reviewed by ASX and ASIC is not to be taken as an indication of the merits of the Resolutions. ASX and ASIC and their officers take no responsibility for any decision a Shareholder may make in reliance on any of the documentation.

5. DEFINITIONS

In this Explanatory Statement:

ACE means Advanced Engine Components Limited, ACN 009 081 770.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited, ABN 98 008 624 691.

Board means the Board of Directors of the Company.

Company means Advanced Engine Components Limited, ACN 009 081 770.

Constitution means the constitution of Advanced Engine Components Limited, ACN 009 081 770.

Corporations Act means the Corporations Act 2001 (Cth).

Director means a director of the Company.



Explanatory Statement means the explanatory statement accompanying the Notice of General Meeting.

General Meeting means the meeting of the Shareholders convened for the purposes of considering the Resolutions contained in the Notice of General Meeting.

Listing Rules means the Listing Rules of the ASX.

Mr Nathan means Mr Vivekananthan M.V. Nathan, the allottee of the share placement referred to under Resolution 1.

Notice of General Meeting means the notice convening the General Meeting accompanying this Explanatory Statement.

Options mean the 3,000,000 options to subscribe for Shares exercisable at 5.5 cents per Share on or before 30 November 2011 to be issued to 698 Capital pursuant to Resolution 2.

Proxy Form means the form of proxy accompanying the Notice of General Meeting.

Related Party means a party so defined by section 228 of the Corporations Act.

Resolution means a resolution proposed to be passed at the General Meeting and contained in the Notice of General Meeting.

Share means a fully paid ordinary share in the Company.

Shareholder means a person entered in the Company's register as a holder of a Share.

698 Capital means 698 Capital International Ltd and 698 Capital Asia Pacific Ltd which are related entities incorporated in the British Virgin Islands.



ANNEXURE A

TERMS OF THE OPTIONS (RESOLUTION 2)

- (a) The Options will not be quoted on the ASX.
- (b) The exercise price is 5.5 cents ("the Exercise Price").
- (c) Each Option will automatically lapse if not exercised on or before 30 November 2011.
- (d) Each Option entitles the holder to subscribe for and be allotted one Share in the capital of the Company upon exercise of the Option and payment to the Company of the Exercise Price.
- (e) An Option may be exercised by the optionholder at any time prior to the expiry date by sending a completed and signed notice of exercise, together with the payment of the Exercise Price and the certificate for the Option, to the Company. The Options may be exercised in whole or in part.
- (f) Shares allotted pursuant to the exercise of the Options will rank equally with the then issued Shares of the Company. The Company undertakes to apply for official quotation by the ASX of all Shares allotted pursuant to the exercise of any Options.
- (g) The optionholder is not entitled to participate in new issues of securities offered to shareholders without exercising the Options before the relevant record date for that new issue.
- (h) In the event of any reorganisation (including consolidation, subdivision, reduction, cancellation or return) of the issued capital of the Company before the expiry of any Options, all rights of the optionholder will be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.
- (i) The Options do not confer the right to a change in Exercise Price, or a change to the number of underlying securities over which they can be exercised, other than under paragraph (h) above.
- (j) The Options are not transferable without the prior written consent of the Company (which consent shall not be unreasonably withheld).



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ADVANCED ENGINE COMPONENTS LIMITED
ACN 009 081 770
GENERAL MEETING
PROXY FORM

I/We (print name)
of

a member/members of Advanced Engine Components Limited (ACN 009 081 770) hereby appoint

.....
of

or failing him/her

of
or failing him/her, the Chairman of the meeting, as my/our proxy at the General Meeting of the Company to be held commencing at **11.00am on Tuesday, 11 May 2010**, and at any adjournment thereof and to vote for me/us on my/our behalf in respect of all/the following* (*refer instructions over page*)

.....
of my/our Shares in the manner as set out below.

In relation to any undirected proxies the Chairman intends to vote in favour of all Resolutions.

If you do not wish to instruct your proxy how to vote, please place a cross in the box.

☐

By marking this box you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of that interest. If you do not mark this box and you have not directed your proxy how to vote, the chair will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called on the resolution.

	For	Against	Abstain
Resolution 1 Ratification of Share Placement	☐	☐	☐
Resolution 2 Issue of Options to 698 Capital	☐	☐	☐

Dated this day of 2010.

PLEASE SIGN HERE

Individual or Securityholder 1

**Individual/Sole Director and
Sole Company Secretary**

Securityholder 2

Director

Securityholder 3

**Director/
Company Secretary**

INSTRUCTIONS FOR COMPLETING THE PROXY FORM

1. To vote by proxy, please complete and sign the Proxy Form enclosed with this Notice of General Meeting as soon as possible and either:
 - send the Proxy Form by facsimile to the Company on +61 8 9209 6999;
 - post the Proxy Form to the Company at PO Box 3126, Malaga WA 6090; or
 - deliver the Proxy Form to the registered office of the Company at 14 Energy Street, Malaga WA 6090.
2. Proxy Forms must be received by the Company not later than 48 hours before the time specified for the commencement of the General Meeting.
3. A member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote on their behalf. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights.
4. *If two proxies are appointed you may delete "all" and insert the relevant number or proportion of Shares in respect of which each such appointment is made. If the Shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes.
5. Should you desire to direct your proxy how to vote, place a cross in the appropriate box for each item, otherwise your proxy may vote as your proxy thinks fit or abstain from voting.
6. A duly appointed proxy need not be a member of the Company. In the case of joint holders, all must sign.
7. Corporate Shareholders should comply with the execution requirements set out on the Proxy Form or otherwise with the provision of section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:
 - 2 directors of the company;
 - a director and a company secretary of the company; or
 - for a proprietary company that has a sole director who is also the sole company secretary – that director.
8. Completion of a Proxy Form will not prevent individual Shareholders from attending the meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Form and attends the meeting in person, the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the meeting.
9. Where a Proxy Form or form of corporate representative is lodged and is executed under power of attorney, the power of attorney must be lodged with this proxy.