ADVANCED ENGINE COMPONENTS LIMITED

Quality Endorsed Company

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12 August 2010

Ms J Cutri
Assistant Manager, Issuers (Perth)
ASX Limited

By Facsimile: (08) 9221 2020

Dear Jenny

ASX Query 6 August 2010 (ASX code ACE)

Set out below is our response to your letter dated 6 August 2010 regarding Advanced Engine Components Ltd ("ACE" or "the Company") June Quarterly Appendix 4C:

1. ***It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, the Company not have sufficient cash to fund its activities for the next two quarters. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?***

As announced with the Appendix 4C, on 30 July 2010, ACE completed a 1 for 3 rights issue raising $1.8m. The $1.8m included $1.1m from its major shareholder which was immediately used to pay accrued interest owing on convertible notes which expired on 31 December 2009. The $1.1m interest payment is included as an operating cash outflow at item 1.5 of the Appendix 4C. Without this interest payment, which occurred only because of the cash inflow shown at item 1.15 of the Appendix 4C, the net operating cash flow for the June 2010 quarter would have been a positive $10,000.

In addition, as announced with the Appendix 4C, the majority of cash outflow related to purchase of long lead time components; capitalised research and development; and production, all relating to the India supply arrangements. The June 2010 quarter only includes minimal cash inflows from these arrangements. Cash inflows from this expenditure will be received in the September 2010 quarter and will increase in subsequent quarters as sales levels expand in accordance with pre set sales schedules.

2. ***Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?***

As stated above, without the one off $1.1m interest payment the negative $1.09m operating cash flow reported in the Appendix 4C would have been a positive $10,000.

ADVANCED ENGINE COMPONENTS LIMITED

Future operating cash flows will be dependent on timing and levels of outflows and inflows relating to sales of ACE products in India, China, Thailand and other markets together with the level of royalties received from Norinco Equipment Co Ltd.

3. ***What steps has the company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?***

Increasing supply of components to India; the Norinco Equipment Co Ltd co-operation agreement; ongoing sales negotiations in China, Thailand and Egypt; and customer funded engine development programs on the HuaChai Deutz 1015, Dong Feng 4 cylinder and Cummins Shengtian 6 cylinder engines, are all steps being taken to continue to meet ACE's business objectives.

4. ***Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?***

ACE is in compliance with the listing rules including listing rule 3.1.

5. ***Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.***

ACE is compliant with listing rule 12.2.

Future short term operating results are dependent upon the level of ongoing sales of components, engines, spares and services together with the timing of inflows and outflows arising from the steps referred to at question 3 above.

The share placement; subsequent rights issue; debt restructure; and key debtor settlements, all completed in the six months to 30 June 2010, have provided a $2.4m cash injection and reduced current liabilities by $4.1m.

All of ACE's secured and interest bearing debt is provided by related parties. There is no third party secured or interest bearing debt. These loan facilities are not expected to require repayment, other than in normal operating circumstances or by mutual consent, in the next 12 months.

For further information contact Tony Middleton, Managing Director, on +618 9209 6900, email shares@advancedengine.com or access the Company's website at www.advancedengine.com

Yours faithfully

Tony Middleton
Managing Director

ASX
COMPLIANCE

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6 August 2010

Ms Alicia Mitton
Company Secretary
Advanced Engine Components Ltd
14 Energy Street
MALAGA WA 6090

By email: mittona@norvest.com.au

Dear Alicia

Advanced Engine Components Ltd (the "Company")

I refer to the Company's Quarterly Report in the form of Appendix 4C for the period ended 30 June 2010 released to ASX Limited ("ASX") on 30 July 2010 (the "Appendix 4C").

ASX notes that the Company has reported the following for the Quarter:

1. Receipts from product sales and debtors of $573,000.
2. Net negative operating cash flows for the quarter of $1,090,000.
3. Cash at end of quarter of $828,000.

In light of the information contained in the Appendix 4C, please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, the Company not have sufficient cash to fund its activities for the next two quarters. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?
4. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?

5. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response will be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me on **facsimile number (08) 9221 2020**. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than **9.00 a.m. W.S.T. on Thursday 12 August 2010**.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

If you have any queries, please do not hesitate to contact me on 9224 0003.

Yours sincerely

(Sent by electronic mail without signature)

Jenny Cutri
Assistant Manager, Issuers (Perth)