

Advance Energy Ltd
ACN: 111 823 762

ANNUAL REPORT FOR THE YEAR ENDED

31st December 2006

ADVANCE ENERGY LTD
ACN 111 823 762

ANNUAL REPORT - 31 DECEMBER 2006

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ADVANCE ENERGY LTD
ACN 111 823 762

FINANCIAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2006

CORPORATE INFORMATION

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Chairman

Alex Bajada

Managing Director

Anthony Short

Non-executive Director

Gordon Sklenka

Company Secretary

Lance Camacho

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Solicitors - Perth

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Website Address

www.advanceenergyltd.com.au

**ADVANCE ENERGY LTD
ACN 111 823 762**

CHAIRMAN'S LETTER

Dear Shareholder

Advance Energy Limited completed a AUD\$6million capital raising and listed on the Australian Stock Exchange on 2nd June 2006. This enabled the Company to commence implementation of its proposed business plan in purchasing producing assets in oil and gas which still have considerable upside in production.

Since that time your Company has raised a further AUD\$4.7million by way of convertible notes. Utilising this together with approximately US\$6.5million in debt from the Sterling Bank in Texas and the funds raised at listing, AVD has built up a strong portfolio of producing oil and gas assets.

Late in 2006 your Company released an outline of the proposed project programme and the expected income from our activities. As AVD is continuously assessing new projects and contemplating the sale of existing assets that have maximised their potential, it is difficult to accurately predict the profitability of our Company. However, our production levels continue to increase.

I would like to thank my fellow directors, staff and our partners in North American Energy, Inc. who have all contributed to the Company's achievements. I would also like to thank all the Shareholders who have had faith in the management and vision of the Company.

I look forward to continued teamwork and success for all parties associated in whatever form with Advance Energy Limited.



Alex Bajada
Chairman
23rd March 2007

REVIEW OF OPERATIONS

1. Corporate overview and strategy

Advance Energy Ltd (“AEL”) was established in 2004 to acquire and develop oil and gas producing assets in the United States of America. The Company listed on the ASX on the 2 June 2006.

AEL aims to acquire, develop and trade producing properties to maximize returns on funds invested. The Company has pursued a strategy of acquiring energy projects in the USA that contain existing proven production, proved behind pipe reserves and step out/in fill drilling potential located within close proximity of existing infrastructure. It is intended to rework the assets to reduce operating costs, increase production and optimize profitability. Drilling will be undertaken on defined exploration targets to add new reserves and increase production. Once fully developed, the strategy is to divest properties that have paid back capital and reinvest the proceeds into new properties which can provide a superior return.

The acquisition and development activities will be funded by a combination of equity, debt, the reinvestment of cash flow and the proceeds from the periodic divestment of properties. The Company has established a \$20 million revolving line of credit with Sterling Bank in the USA which had been drawn down to \$6.4 million by the end of December 2006.

AEL’s US operations are managed by North American Energy Inc (“NAE”), an experienced oil and gas exploration and production manager based in Houston Texas. NAE provides identification, assessment and management of exploration and production projects for AEL. NAE also provides professional and administrative services to AEL. To help ensure that NAE’s interests are aligned with AEL, NAE will join AEL as a participant in acquired projects by receiving 10% of the Working Interest (WI) acquired by AEL at the time of acquisition and a further 7.5% of the Working Interest at Economic Payout. NAE also has an equity position in AEL.

2. Investment Philosophy

Advance Energy has developed an investment philosophy based on strict investment parameters which ensure that the Company is focused on cash returns on producing assets. These returns are to be leveraged through the use of bank debt and new technologies. The type of asset the Company seeks to acquire is one with current production, which the Company believes it can increase through work-overs and low-risk development drilling. The Company has also adopted a trading discipline with its assets to ensure that the Company is continually trading its properties as they reach maturity and moving on to better quality assets, which reflect increased development potential.

3. Operations Overview and prospects

Martin County – Mother Lode Project

AEL’s Mother Lode 3-D Project is located just north of Midland, Texas, in the north-central portion of the Midland Basin. The project covers 250 square miles of contiguous 3-D seismic data located in the northern part of Midland County, the central portion of Martin County, and the southern part of Dawson County.

After acquiring this data, it was reprocessed and to it added subsurface geological control from over 1,000 wells to enhance the prospecting methodology. To date, there have been 15 wells drilled on prospects generated from this project and 14 have been completed as producers for a success rate of 93%. AEL has participated in two phases of this project as described below.

- Phase I

In May of 2005, the Company acquired a 22.5% average Working Interest (17% average NRI) in five wells producing from the Strawn Limestone. The properties are in the central portion of Martin County approximately 20 miles northeast of the city of Midland, Texas.

The five producing wells resulted from the drilling of two prospects (Homestake and RKE, see Figure 1 below) that were generated by utilizing the prior mentioned 3-D seismic data. Subsequent to the acquisition, AEL participated in two hydraulic fracture stimulation treatments that resulted in an average six-fold increase of production for the two wells. In addition, AEL is currently participating in the completion of a successfully drilled development well

REVIEW OF OPERATIONS (Continued)

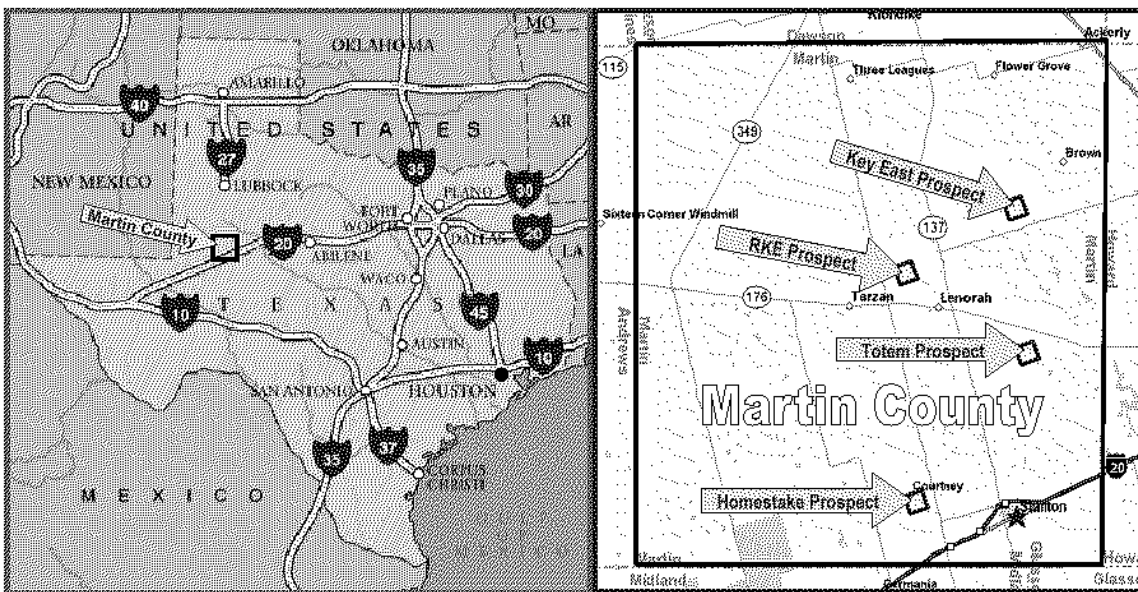
that offsets one of the five originally acquired wells. Future development plans for these assets include an additional stimulation treatment on one well and the drilling of up to three more development wells.

The five producing wells acquired by the Company are currently producing at a cumulative rate of 110 boepd and have cumulative production in excess of 257,000 BOE from May 2001 to October of 2006. It should be noted that the wells were producing 75 boepd at the time of acquisition

- Phase II

Since listing, AEL participated in the development drilling of the Totem Prospect. This prospect, generated from the above mentioned 3-D seismic, consists of 640 acres. In July of 2006, AEL acquired a 12.5% Working Interest in the discovery well and the rights to participate in the drilling of up to seven additional wells. There are currently two wells producing at a combined rate of 175 boepd. At the time of this report, a third well has been successfully drilled and is awaiting completion. AEL expects to participate in the drilling of five more wells on this prospect over the next 12 months. AEL also participated in the drilling and successful completion of a well on the Key East prospect. This well began producing in December of 2006 at a rate of 80 BOEPD.

Figure 1: General Location of The Martin County Projects



Palo Pinto County - Lone Camp Project

AEL has acquired a 71.5% average Working Interest (53.625% average NRI) in nine producing oil and natural gas wells, one salt water disposal well and a 67.5% interest in an eight kilometer natural gas transmission line. The project is located in the eastern portion of Palo Pinto County, Texas approximately 50 miles west of Fort Worth, Texas.

The project area covers approximately 1,279 acres and affords easy access and contains no adverse environmental conditions.

The nine wells are currently producing at a rate of 250 mcfepd natural gas from four hydrocarbon zones. The development plan scheduled for 2007 includes drilling two developmental wells and performing two work-overs. This development plan is anticipated to add up to an additional 1,000 mcfepd to the existing production. In total, these wells have produced in excess of 3,300 mmcf of natural gas from July, 1985 to October, 2006.

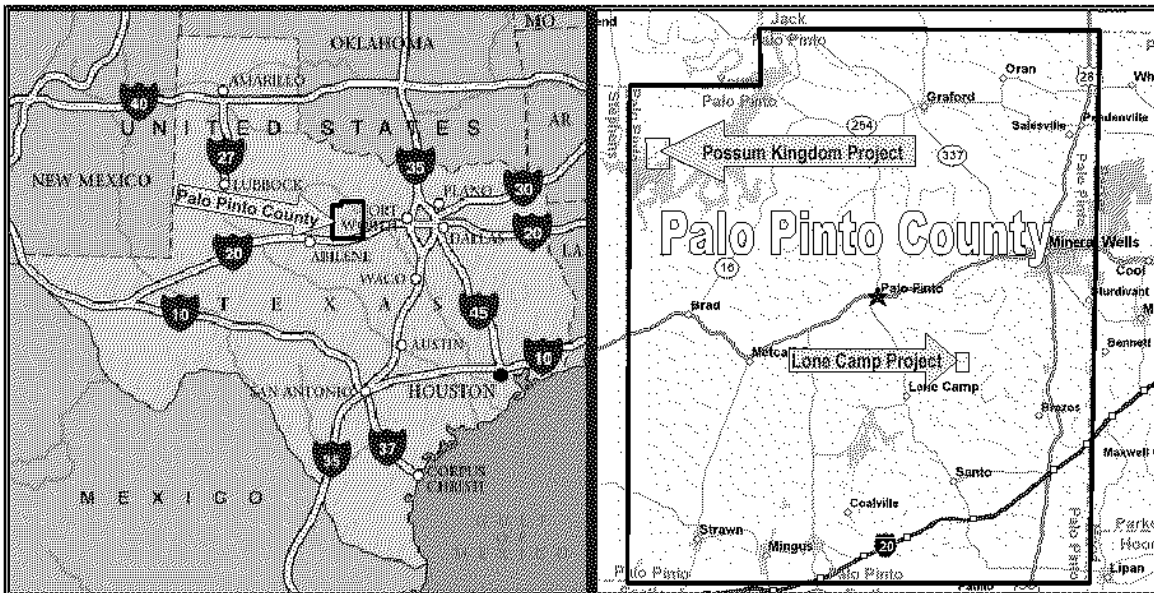
REVIEW OF OPERATIONS (Continued)

Palo Pinto County - Possum Kingdom Project

In December 2006 AEL purchased an average working interest of 90% in the Possum Kingdom project located in Palo Pinto County Texas for US\$9,675,000 (excluding post completion adjustments). In summary the project comprises:

- Nine producing wells averaging 2,300 Mcfe/d at the effective date
- Average per well LOE of \$1,250 per month
- Approximately 1,015 net acres held by production and lease
- Three stimulation and one mechanical (PDP Enhancement) candidates
- Five Proved Developed Non-Producing (PDNP or Behind Pipe) candidates
- Three Proved Undeveloped (PUD) locations
- Total Proved Net Reserves in excess of 5.25 Bcfe
- Eastern acreage being leased by large Barnett Shale operators

Figure 2: General Location of Palo Pinto County Projects



Many of the existing wells had been recently completed and have higher than average initial depletion rates. These depletion rates were taken into account during the valuation process.

The existing wells produce from various Bend Conglomerate reservoirs at an average depth of 4,100 ft. and have produced in excess of 1,100,000 Mcfe in two and a half years of production. Several of the wells have recently been drilled and completed. An extensive development and work-over program is planned for this project during 2007.

Palo Pinto County - Barnett Shale History and Overview

As a part of these acquisitions, Advance has gained rights to the Barnett Shale Field. The Barnett Shale is geological formation with excellent economic possibilities. It consists of Mississippian sedimentary rocks in the state of Texas. The formation is estimated to stretch from the city of Dallas west, covering 5,000 square miles and at least 17 counties.

Some experts have suggested the Barnett Shale may be the largest onshore natural gas field in the United States. The field is proven to have 2.1 trillion cubic feet of natural gas, and is widely estimated to contain as much as 30 trillion cubic feet of natural gas resources. Oil has also been found in lesser quantities, but sufficient (with recent high oil prices) to be commercially viable.

Operators, such as EOG Resources and Devon Energy, have stated in public reports as recently as Mid-2005 that they estimate that 1/3 to 1/2 of the land in these counties, including "hot" counties like Johnson and Tarrant, will

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REVIEW OF OPERATIONS (Continued)

get wells (It would logically flow that the rest of the land will either get pooled in a unit that will have wells, or get nothing at all if the land is in an especially complex area). There have been few dry holes drilled; and because technology like 3D Seismic allows operators to predict faulting and karsting before they drill this bad acreage can be avoided. Therefore, it is safe to conclude that these rights Advance holds on this Barnett Shale field could be of great economic significance. One realistic possibility is that Advance could choose to sell the rights to one of the companies which are actively involved in developing the field currently.

4. Results

The company was initially listed on ASX on the 2 June 2006. This gave the company the access to capital it required to acquire assets which would fall within the stated investment philosophy (see above). As is evident from the discussion above, this also allowed the company to plan and begin executing an extensive drilling and work-over plan which is designed to enhance the value of properties acquired. Both the current and prior periods therefore reflected the costs of growth of the asset base, rather than reflecting significant revenue growth. Revenue is however, expected to reflect the benefit of the increased asset base during 2007.

Significant changes in the state of affairs of the group during the year included (AUD \$ 000):

a) An increase in:	
- issued share capital	7,072
- issue of options at various prices	1,634
b) An increase in the debt structure as follows	
- Issue of convertible notes	4,274
- Bank finance	8,062
c) Acquisition of assets and development costs in Texas, USA net of depletions and depreciation	14,826

The above movements reflect clearly the growth and acquisition phase of the company to date. During February 2006, the Company entered into a revolving line of credit with Stirling bank in the U.S. Generally, the borrowing base of the line of credit as determined by the bank approximates the company's investment in oil and gas properties, up to a maximum of US\$ 20 million.

5. Prospects

At the date of this report, the directors are resolved to continue with the consideration of appropriate additional property transactions in line with the company's stated objectives. Directors intend to continue to seek additional cash and finance facilities to facilitate growth of its property portfolio. The directors are of the opinion that this will provide the momentum required in the industry and achieve overall company objectives resulting in increased returns to shareholders.

6. Environmental Issues

The Group's operations are subject to various environmental regulations under the Federal and State Laws of the United States of America. The majority of the company's activities involve low level disturbance associated with its production facilities and exploration drilling programs. As at the date of this report the group complies fully with all such regulations.

CORPORATE GOVERNANCE

COMPLIANCE WITH ASX CORPORATE GOVERNANCE RECOMMENDATIONS

Introduction

Advance Energy Limited ("**Company**") has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this section and additional information is provided on the Company's website.

Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the company are achieved, how risk is monitored and assessed and how performance is optimised.

The Board and management are committed to corporate governance and, to the extent they are applicable to the Company, have adopted the Ten Essential Corporate Governance Principles and each of the Best Practice Recommendations as published by ASX Corporate Governance Council.

To obtain a copy of these principles please go to the ASX website (www.asx.com.au/about/CorporateGovernance_AA2.shtml).

Whilst the Board has demonstrated, and continues to demonstrate, its commitment to best practice in corporate governance, it emphasises that good corporate governance is only one factor contributing to the success of the Company's operations.

Additional information about the Company's corporate governance practices is set out on the Company's website at www.advanceenergyltd.com.au:

Role of the Board and Management

Council Principle 1:
Lay solid foundations for management and oversight

Council Recommendation 1.1:

Formalise and disclose the functions reserved to the board and those delegated to management. These have been formally adopted by the Board on the 15 December 2006 in the Statement of Board and Management Functions and is summarised below.

Role of the Board

The Board's primary role is the protection and enhancement of medium to long term shareholder value.

To fulfil this role, the Board is responsible for the overall Corporate Governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Responsibility of the Board

The Board is collectively responsible for promoting the success of the Company by:

CORPORATE GOVERNANCE (Continued)

- supervising the Company's framework of control and accountability systems to enable risk to be assessed and managed
- ensuring the Company is properly managed
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approval of the annual budget;
- monitoring the financial performance of the Company;
- approving and monitoring financial and other reporting;
- overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities within the Company to ensure division of functions remain appropriate to the needs of the Company;
- liaising with the Company's external auditors either directly or via the Audit Committee as appropriate; and
- monitoring, and ensuring compliance with, all of the Company's legal obligations, in particular those obligations relating to the environment, native title, cultural heritage and occupational health and safety.

The Board must convene regular meetings with such frequency as is sufficient to appropriately discharge its responsibilities generally once per month, but more or less as required.

The Board may from time to time, delegate some of its responsibilities listed above to its senior management team.

Materiality threshold

The Board has agreed on both quantitative and qualitative guidelines for assessing the materiality of matters. Qualitative indications of materiality would include if:

- they impact on the reputation of the Company;
- they involve a breach of legislation;
- they are outside the ordinary course of business;
- they could affect the Company's rights to its assets;
- if accumulated they would trigger the quantitative tests; or

CORPORATE GOVERNANCE (Continued)

The Chairman

The chairman is responsible for leadership of the Board, for the efficient organisation and conduct of the Board's function and for the briefing of all directors in relation to issues arising at Board meetings. The chairman is also responsible for overall shareholder communication, chairing shareholder meetings, and arranging Board performance evaluation.

The Managing Director

The managing director is responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. In carrying out his/her responsibilities the managing director must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial condition and operational results.

Role and responsibility of management

The role of management is to support the managing director and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

Management is responsible for reporting all matters which fall within the Materiality Threshold at first instance to the managing director or if the matter concerns the managing director then directly to the chairman or the lead independent director, as appropriate.

Relationship of Board with management

Management of the day-to-day business of the Company is to be conducted by or under the supervision of the Board, and by those other officers and employees to whom the management function is properly delegated by the Board.

The Board will adopt appropriate structures and procedures to ensure that the Board functions independently of management. Appropriate procedures may involve the Board meeting on a regular basis without management present, or may involve expressly assigning the responsibility for administering the Board's relationship to management to a Committee of the Board.

Information is formally presented to the Board at Board meetings by way of Board reports and review of performance to date. When directors are providing information about opportunities for the Company, this should always be through the Board.

Composition of the Board

Council Principle 2
Structure the board to add value

Council Recommendation 2.1:

A majority of the board should be independent directors.

A summary of the factors taken into account by the board in assessing independence is provided on the company's website.

CORPORATE GOVERNANCE (Continued)

The Company presently has two Non-Executive Directors, both of which are considered by the Board not to be independent in terms of the ASX Corporate Governance Council's definition of independent director, and one Executive Director. As such, the Board considers that no Director is independent in accordance with Recommendation 2.1. However the Board considers that its structure has been and continues to be appropriate in the context of the company's current projects and operations. The Company considers that each of the non-independent directors possess skills and experience suitable for building the Company. Furthermore, the Board considers that in the current phase of the Company's growth, the Company's shareholders are better served by directors who have a vested interest in the Company. The Board intends to reconsider its composition as the Company's operations evolve, and appoint independent directors as appropriate.

Council Recommendation 2.2:

The chairman should be an independent director.

The Company's Chairman, Alex Bajada, is considered by the Board not to be independent in terms of the ASX Corporate Governance Council's definition of independent director. However the Board believes that the Chairman is able and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairman.

Council Recommendation 2.3:

The roles of the chairman and chief executive officer should not be exercised by the same individual.

The Company complies with this recommendation.

Council Recommendation 2.4:

The board should establish a nomination committee.

The Company established a nomination committee on the 15 December 2006. Membership of the nomination committee consists of the full board. The Board intends to reconsider the composition of the committees as the Company's operations evolve, and appoint alternative members as appropriate.

The nomination committee charter has been made available on the company's website.

Details of the Board Members, including their skills and experience are included in the Directors report. Provision is made by the corporate governance committee for the Directors to take reasonable independent professional advice.

Ethical and Responsible Decision-Making

Council Principle 3:

Promote ethical and responsible decision-making.

Council Recommendation 3.1:

Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:

the practices necessary to maintain confidence in the company's integrity;

the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

CORPORATE GOVERNANCE (Continued)

The Company complies with this recommendation. The company has adopted a code of conduct incorporating all corporate executives. It requires all business affairs to be conducted legally, ethically and with integrity. The code provides for reporting of breach of the code by others. The code of conduct has been made available on the company's website.

Council Recommendation 3.2:

Disclose the policy concerning trading in company securities by directors, officers and employees.

The Board has adopted a policy and procedure on dealing in the Company's securities by directors, officers and employees which:

- prohibits dealing in the Company's securities whilst in possession of insider information;
- prevents short term trading in the Company's securities;
- requires the company secretary or a director (other than the director trading, if applicable) to be notified upon a trade occurring; and
- prevents dealing in the Company's securities during specified blackout periods.

The policy on dealing in securities has been made available on the company's website.

Integrity of Financial Reporting

Council Principle 4:
Safeguard integrity in financial reporting.

Council Recommendation 4.1:

Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Company's Managing Director and Chief Financial Officer report in writing to the Board that the consolidated financial statements of the Company and its controlled entities for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards.

Council Recommendation 4.2:

The board should establish an audit committee.

The Board considers that the Company has previously not been of a size, nor were its financial affairs of such complexity to justify the formation of an audit committee. The Board as a whole has up to 15 December 2006 undertaken the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems. On 15 December 2006, the board established an audit committee and adopted the audit committee charter. In summary, the charter provides as follows:

CORPORATE GOVERNANCE (Continued)

Composition of the audit committee

The committee shall comprise the full Board.

At least one member is to have significant, recent and relevant financial experience.

Role of the audit committee

- To monitor the integrity of the financial statements of the Company, reviewing significant financial reporting judgments.
- To review the Company's internal financial control system and, unless expressly addressed by a separate risk committee or by the Board itself, risk management systems.
- To make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
- To monitor and review the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements.
- To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

Operations

- The committee meets at least bi-annually, with further meetings on an as required basis.
- Minutes of all meetings of the committee are to be kept.
- Committee meetings will be governed by the same rules, as set out in the Company constitution as they apply to the meetings of the Board.

Resources

The Company is to provide the committee with sufficient resources to undertake its duties, including provision of educational information on accounting policies and other financial topics relevant to the Company and such other relevant materials requested by the committee.

The full Audit committee charter has been made available on the company's website.

Council Recommendation 4.3:

Structure the audit committee so that it consists of:

only non-executive directors;

a majority of independent directors;

an independent chairman, who is not chairman of the board;

at least three members.

Refer Recommendation 4.2. The company does not comply with this recommendation. Membership of the audit committee consists of the full board. The board is aware of the importance of the proper functioning of the audit committee and intends to reconsider the composition of the committees as the Company's operations evolve, and appoint alternative members as appropriate.

CORPORATE GOVERNANCE (Continued)

Council Recommendation 4.4

The audit committee should have a formal operating charter.

Refer Recommendation 4.2. The company complies with this recommendation.

Continuous Disclosure to ASX

Council Principle 5:

Make a timely and balanced disclosure

Council Recommendation 5.1:

Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

Detailed compliance procedures for ASX Listing Rule disclosure requirements have been adopted by the Company. It appoints an officer of the Company to be responsible for compliance. It is detailed in its application covering the following areas:

- appointment of the responsible officer and description of his/her duties
- identifies areas of risk for the Company
- provides guidelines for:
 - identifying disclosure material
 - monitoring share price movements
- guide for use of trading halts
- guide for decision making process
- details on record keeping
- education of Board and management
- confidentiality
- release of disclosure material
- updating of compliance procedures

The full policy and procedures for compliance with continuous disclosure requirements is available on the company's website.

Communication with Shareholders

Council Principle 6:

Respect the rights of shareholders

CORPORATE GOVERNANCE (Continued)

Council Recommendation 6.1:

Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

The Company has adopted a policy which includes the following:

General communication

Information is communicated to shareholders as follows:

- the annual report is distributed to all shareholders. The Board ensures that the annual report includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs of the consolidated entity and details of future developments, in addition to the other disclosures required by the Corporations Act;
- the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year audited financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Act and is lodged with the Australian Stock Exchange. The half-yearly report is sent to any shareholder who requests it;
- the quarterly report contains summarised cash flow financial information and details about the Company's activities during the quarter. The quarterly report is sent to any shareholder who requests it;
- proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders;
- the Company's website is well promoted to shareholders and shareholders may register to receive updates.

Participation at Annual General Meeting

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the constitution. Copies of the constitution are available to any shareholder who requests it.

Company's website

The Company maintains a website at www.advanceenergyltd.com.au.

On its website, the Company makes the following information available on a regular and up to date basis:

- company announcements;
- latest information briefings;
- notices of meetings and explanatory materials;
- quarterly, half yearly and annual reports;

CORPORATE GOVERNANCE (Continued)

The website is being continuously updated with any information the directors and management may feel is material.

A copy of the arrangements regarding communication with and participation of shareholders is also available on the company's website.

Council Recommendation 6.2:

Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company complies with this recommendation.

Risk Management

Council Principle 7:
Recognise and manage risk

Council Recommendation 7.1:

The Board or appropriate board committee should establish policies on risk oversight and management.

The Company has developed a framework for risk management and internal compliance and control systems which covers organisational, financial and operational aspects of the Company's affairs. It appoints the managing director as being responsible for ensuring that the systems are maintained and complied with. A copy of the risk management strategy is available on the company's website.

Council Recommendation 7.2

The chief executive officer and the chief financial officer should state in writing that:

the statement given in accordance with best practice Recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board;

the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Company complies with this recommendation.

Performance

Council Principle 8:
Encourage enhanced performance

Council Recommendation 8.1:

Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

The chairman is responsible for conducting an annual review of overall Board performance during a regular meeting of the Board. As this is the company's first year as a listed entity, no review has been performed during the current reporting period. Going forward the chairman intends to review all key executives annually. The board intends formalising more detailed performance evaluation techniques as the Company's operations evolve.

CORPORATE GOVERNANCE (Continued)

Remuneration

Council Principle 9:
Remunerate fairly and responsibly

Council Recommendation 9.1:

Provide disclosure in relation to the company's remuneration policies to enable investors to understand:

the costs and benefits of those policies; and

the link between remuneration paid to directors and key executives and corporate performance.

Full details regarding the remuneration of the directors is included in the Directors Report.

Council Recommendation 9.2

The board should establish a remuneration committee.

The Company formed the remuneration committee on the 15 December 2006. The policy which includes:

Composition

The Remuneration Committee comprises the full Board. Membership of the committee will be reviewed as the company's operations evolve.

Role

The Remuneration Committee's role is to discharge the Board's responsibilities in relation to remuneration of the Company's executives including share and benefit plans. This will result in the company establishing appropriate remuneration levels and incentive policies for all executives.

Operations

The committee will convene at least once a year and otherwise as required. Committee meetings will be governed by the same rules as set out in the Company's constitution, as they apply to meetings of the Board.

Responsibilities

The responsibilities and functions of the Remuneration Committee are as follows:

- review the competitiveness of the Company's executive compensation programs to ensure:
 - the attraction and retention of corporate officers;
 - the motivation of corporate officers to achieve the Company's business objectives; and
 - the alignment of the interests of key leadership with the longer-term interests of the Company's shareholders;
- review trends in management compensation, oversee the development of new compensation plans and, when necessary, approve the revision of existing plans;
- review the performance of executive management;

CORPORATE GOVERNANCE (Continued)

- review and approve chairman and managing director goals and objectives, evaluate chairman and managing director performance in light of these corporate objectives, and set chairman and managing director compensation levels consistent with company philosophy;
- approve the salaries, bonus and other compensation for all senior executives, the committee will recommend appropriate salary, bonus and other compensation to the Board for approval;
- review and approve compensation packages for new corporate officers and termination packages for corporate officers as requested by management;
- review and approve the awards made under any executive officer bonus plan, and provide an appropriate report to the Board;
- review and make recommendations concerning long-term incentive compensation plans, including the use of share options and other equity-based plans. Except as otherwise delegated by the Board, the committee will act on behalf of the Board as the committee established to administer equity-based and employee benefit plans, and as such will discharge any responsibilities imposed on the committee under those plans, including making and authorising grants, in accordance with the terms of those plans; and
- review periodic reports from management on matters relating to the Company's personnel appointments and practices.

The full remuneration policy is available on the company's website.

Council Recommendation 9.3

Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

All directors are involved in the running of the company's business. Remuneration policies will be formally adopted as the needs of the company evolve and as non executive directors are appointed.

Council Recommendation 9.4

Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

The Company currently has no equity-based remuneration plan.

It is anticipated that a limited equity-based remuneration arrangement will be developed and put to shareholders. If approved by shareholders, the Company will ensure that the payment of remuneration under the plan will be made in accordance with thresholds set.

Interests of Stakeholders

Council Principle 10:
Recognise the legitimate interests of stakeholders

Council Recommendation 10.1:

Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The Company complies with this recommendation. A copy of the code of conduct is available on the company's website.

ADVANCE ENERGY LTD
ACN 111 823 762

DIRECTORS' REPORT

Your Directors present their report on the company for the year ended 31 December 2006.

Directors

The names and details of the Company's Directors in office at any time during the financial year and until the date of this report are detailed below.

A. Bajada (appointed 16 November 2004)
A. Short (appointed 16 November 2004)
G. Sklenka (appointed 16 November 2004)

Principal activities

The principal continuing activities of the Group and Company during the financial period were the acquisition, production and exploration of petroleum and gas properties in Texas, United States of America.

There were no changes in the nature of the activities of the group during the year.

Operating results

The net operating loss of the Group for the period ended 31 December 2006 after income tax amounted to \$3.508 million (2005: loss \$1.327 million).

Dividends paid or recommended

No dividend was paid or declared during the period and the Directors do not recommend the payment of a dividend.

Review of operations

A detailed review of the Company's activities is contained in the Operations Review section of the Financial Report.

Significant changes in the state of affairs

Significant changes in the state of affairs of the group during the year were as follows (AUD \$ 000):

a) An increase in:	
- Issued share capital	7,072
- Issue of call options and CPS amortisations at various prices	1,634
b) An increase in the debt structure as follows	
- Issue of convertible notes	4,274
- Bank finance	8,062
c) Acquisition, exploration and work-overs of properties in Texas, USA less depletions and depreciation	14,826

Matters subsequent to the end of the financial year

Other than the movements in convertible notes detailed to in note 29 there were no other material events arising subsequent to 31 December 2006 to the date of this report, which significantly effected or may significantly effect the operations of the Group and Company or the results of those operations on the state of affairs of the Company.

Likely developments

At the date of this report, the directors are resolved to continue considering appropriate additional property transactions in line with the company's stated objectives. Directors intend to continue to seek additional cash and finance facilities to facilitate growth of its property portfolio. The directors are of the opinion that this will provide the momentum required in the industry and achieve the overall company objectives.

Additional comments on the expected results of the operations of the group are included under the review of operations.

DIRECTORS' REPORT (Continued)

Environmental Issues

The Group's operations are subject to various environmental regulations under the Federal and State Laws of the United States of America. The majority of the company's activities involve low level disturbance associated with its production facilities and exploration drilling programs. As at the date of this report the group complies fully with all such regulations.

INFORMATION ON DIRECTORS AND SECRETARY

Names, qualifications, experience and special responsibilities

Mr Alex Bajada B.Econ(UWA) – Chairman

Mr Bajada is Executive Director of Spartan Nominees Pty Ltd, corporate consultants. He is a former stockbroker with many years experience in the corporate sector and has been involved in the management of public companies for many years fulfilling the roles of chairman and director.

Other Current directorships

Managing Director of Excalibur Mining Corporation Limited, Chairman of AXG Limited, Director of Hawkesbridge Limited and an independent Director of the WA Local Government Superannuation Plan.

Other directorships within the last three years

Advance Healthcare Group Ltd, Chairman of Inovax Ltd.

Mr Anthony Short BPE, BCom, Grad Dip(Fin), MAICD - Managing Director

Mr Short has over 16 years experience in the administration and management of listed public companies. He has extensive experience at board level in the management and formation of public companies in the areas of gold mining, drilling, oil and gas in the USA. Mr Short has held the position of Chairman, CFO and Managing Director in a number of listed public companies and has also acted as corporate advisor to a number of public Company listings. Mr Short has known and worked with the principal of NAE for some ten years.

Other Current directorships

Regal Resources Ltd and Palace Resources Limited

Other directorships within the last three years

None

Mr Gordon Sklenka B.Com (UWA) – Non-Executive Director

Mr Sklenka graduated from the University of Western Australia with a Bachelor of Commerce degree majoring in accounting and finance. He has over 15 years experience in corporate finance in the areas of capital raisings, IPOs, acquisitions and project finance in the resources and technology sectors. Mr Sklenka has worked with a number of listed public companies in both Australia and Canada and developed extensive experience in Company formation, capital raising and project acquisition. He is currently on the board of four other Australian ASX listed public companies in the resources sector.

Other Current directorships

Regal Resources Ltd, Tribune Resources NL, Rand Mining NL, AXG Mining Ltd.

Other directorships within the last three years

None

Mr Lance Camacho BCom, BCompt (Hons), ACA – Company Secretary (Appointed 28 August 2006)

Mr Camacho has over 13 years experience in managing corporate finance and administration at senior level. He has recently held the position of CFO and Company Secretary for companies listed on both the JSE and the ASX. Mr Camacho also held an executive directorship of an IT consulting company for five years.

Mr Simon Robertson – Company Secretary (Appointed 10 March 2006, resigned 1 August 2006)

Mr Robertson has a Bachelor of Business from Curtin University having graduated in 1982 and is a member of the Institute of Chartered Accountants. His previous experience is in senior finance roles at listed companies involved in contract mining activities in Australia and overseas.

ADVANCE ENERGY LTD
ACN 111 823 762

DIRECTORS' REPORT (Continued)

Meetings of Directors

The number of meetings held by the company's board of directors during the year ended 31 December 2006 and the number of meeting attended by each director were:

	Board meetings held	Board meetings attended
A. Bajada	16	16
A. Short	16	16
G. Sklenka	16	16

As the board committees were formed on 15 December 2006, no committee meetings have been held.

Securities held and controlled by Directors

As at the date of this report, the interests of the Directors in shares, Convertible Preference Shares ("CPS") and options of the Company were:

Ordinary shares

Holder	Held at beginning of year	Acquired	Sold	Converted CPS	Balance at end of year
Alex Bajada					
- Indirect	2,000,001	20,000	-	1,000,000	3,020,001
Anthony Short					
- Indirect	7,650,002	24,000	-	1,000,000	8,674,002
Gordon Sklenka					
- Indirect	2,000,000	-	-	1,000,000	3,000,000

Options

Holder	Held at beginning of year	Acquired	Sold	Exercised	Balance at end of year
Alex Bajada					
- Indirect	2,000,000	-	-	-	2,000,000
Anthony Short					
- Indirect	4,000,000	-	-	-	4,000,000
Gordon Sklenka					
- Indirect	2,000,000	-	-	-	2,000,000

Converting Preference shares (CPS)

Holder	Held at beginning of year	Acquired	Sold	Converted to shares	Balance at end of year
Alex Bajada					
- Indirect	2	-	-	(1)	1
Anthony Short					
- Indirect	4	-	-	(1)	3
Gordon Sklenka					
- Indirect	2	-	-	(1)	1

Details of the conditions relating to conversion of the Converting Preference Shares are included in note 16 and 17.

DIRECTORS' REPORT (Continued)

Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for directors and executives of Advance Energy Limited. This report has been set out under the following main headings:

- A. Principles Used to Determine the Nature and Amount of Remuneration (audited)
- B. Service Agreements (audited)
- C. Details of Remuneration (audited)
- D. Share-based Compensation (audited)

The Board constituted the remuneration committee on the 15 December 2006. No meeting had been held by year end. The Remuneration Committee comprises the full Board. The Remuneration Committee's role is to discharge the Board's responsibilities in relation to remuneration of the Company's executives including share and benefit plans. This will result in the company establishing appropriate remuneration levels and incentive policies for all executives. Membership of the committee will be reviewed as the company's operations evolve.

A. Principles Used to Determine the Nature and Amount of Remuneration (audited)

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and Executive Officers. The Remuneration Committee will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage/alignment of executive compensation
- Transparency
- Capital management

The board policy is to remunerate non executive directors at fair market rates for comparable companies for the relevant time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually based on market practice, duties and accountability. The maximum amount of fees that can be paid to directors is subject to approval by shareholders at General Meeting. Fees for non-executive directors are not linked to the performance of the Group. However, to align director's interests with shareholder interests the directors are encouraged to hold shares in the company and may be issued with additional securities as deemed appropriate.

The Board believes that the remuneration policy is appropriate given the stage of development of the Company and the activities which it undertakes and is appropriate for aligning director and executive objectives with shareholder and business objectives. The remuneration committee will continually develop new practices which are appropriate to the Company's size and stage of development.

Executive Officers are those directly accountable for the operational management and strategic direction of the Company and the consolidated entity.

All contracts with directors and executives may be terminated by either party with three months notice.

ADVANCE ENERGY LTD
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DIRECTORS' REPORT (Continued)

Fixed remuneration

Fixed remuneration consists of a base remuneration package, which includes directors' fees (in the case of Directors), salaries, consulting fees and employer contributions to superannuation funds.

Fixed remuneration levels for Directors and executive officers will be reviewed annually by the Remuneration Committee through a process that considers the employee's personal development, achievement of key performance objectives for the year, industry benchmarks wherever possible and CPI data.

Recommendations for remuneration levels are given by the Remuneration Committee to the Board for approval.

Appropriate key performance indicators (KPIs) will be developed by the Remuneration Committee for each director and executive officer each year, and reflect an assessment of how that employee can fulfil their particular responsibilities in a way that best contributes to Company performance and shareholder wealth in that year.

Performance-linked remuneration

All employees may receive bonuses and/or share options based on achievement of specific goals related to performance against individual KPIs and to the performance of the Company as a whole as determined by the directors, based on a range of factors. These factors include traditional financial considerations such as operating performance, cash consumption and deals concluded. They also include industry-specific factors relating to the advancement of the Company's activities and relationships with third parties and internal employees.

B. Service Agreements (audited)

Remuneration and other terms of employment for the key management personnel are formalised in service agreements. Each of these agreements provide for the provision of performance related cash bonuses, other benefits including health insurance and car allowances. Other major provisions of the agreements relating to remuneration are set out below.

The directors and key management personnel during the year included:

Directors

Mr A Bajada, Chairman

- Agreement commenced 24 November 2004, no termination date;
- Base salary, inclusive of superannuation, for the year ended 31 December 2006 of \$54,500 to be reviewed annually by the remuneration committee; and
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 3 months' base salary.

Mr A Short, Managing Director

- Agreement commenced 24 November 2004, no termination date;
- Base salary, inclusive of superannuation, for the year ended 31 December 2006 of \$220,000, to be reviewed annually by the remuneration committee; and
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 3 months' base salary.

Mr G Sklenka, Non-executive Director

- Agreement commenced 24 November 2004, no termination date;
- Base salary, inclusive of superannuation, for the year ended 31 December 2006 of \$38,150 to be reviewed annually by the remuneration committee; and
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 3 months' base salary.

Key Management Personnel

Mr L Camacho, Company Secretary/Chief Financial Officer

- Term of agreement commencing 28 August 2006, no termination date.
- Base salary, inclusive of superannuation of \$152,600 to be reviewed annually by the remuneration committee.

ADVANCE ENERGY LTD
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DIRECTORS' REPORT (Continued)

- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to three (3) months' base salary.

Mr S Robertson, Company Secretary

- Agreement terminated upon resignation on 1 August 2006.

C. Details of Remuneration (audited)

The key management personnel of Advance Energy Limited during the year ended 31 December 2006 includes all directors and executives mentioned above.

Remuneration packages contain the following key elements:

- Primary benefits – salary/fees and bonuses;
- Post-employment benefits – including superannuation;
- Equity – share options and other equity securities; and
- Other benefits.

Nature and amount of remuneration for the year ended 31 December 2006.

		Short-term employee benefits		Post - employment benefits	Equity Performance related		Total	Proportion of remuneration performance related %
		Salary directors' fees	Bonus	Super-annuation	Option based payments	Preference share based payments		
		\$	\$	\$	\$	\$	\$	%
Executive directors								
A Short	2006	219,996	18,736	-	-	123,687	362,419	34
	2005	247,123	-	-	52,320	119,792	419,235	40
Non-executive directors								
A Bajada	2006	54,492	4,749	-	-	118,186	177,427	67
	2005	62,219	-	-	26,160	92,773	181,152	65
G Sklenka	2006	38,148	3,179	-	-	118,187	159,514	74
	2005	38,148	-	-	26,120	92,773	157,041	54
Total directors' compensation	2006	312,636	26,664	-	-	360,060	699,360	51
	2005	347,490	-	-	104,600	305,338	757,428	50
Other key management personnel								
Lance Camacho	2006	43,051	11,667	5,411	233,000	-	293,129	79
	2005	-	-	-	0	-	-	-
S Robertson	2006	76,960	-	-	50,000	-	126,960	39
	2005	10,700	-	-	0	-	10,700	-
Total other key management compensation	2006	120,011	11,667	5,411	283,000	-	420,089	67
	2005	10,700	-	-	-	-	10,700	-
TOTAL COMPENSATION	2006	432,647	38,331	5,411	283,000	360,060	1,119,449	57
	2005	358,190	-	-	104,600	305,338	768,128	50

All contracts with directors and executives may be terminated by either party with three months notice.

ADVANCE ENERGY LTD
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DIRECTORS' REPORT (Continued)

D. Share-based Compensation (audited)

Options

Options granted under the plan carry no dividend or voting rights and have varied contractual lives.

Options were issued to directors during 2005 as part of their remuneration and as incentive options to increase goal convergence between directors and shareholders. No options were granted to directors during the year ended 31 December 2006.

The following table discloses the value of options granted, exercised or lapsed during the year:

		Options granted	Exercise price per share	Value at grant date	Value of Options included in remuneration for the year	Expiry date
		\$	\$	\$	\$	
Directors						
Mr A Short	2006	-		-	-	
	2005	4,000,000	@ \$0.25	52,320	52,320	31 Dec 2010
Mr A Bajada	2006	-	-	-	-	-
	2005	2,000,000	@ \$0.25	26,160	26,160	31 Dec 2010
Mr G Sklenka	2006	-	-	-	-	-
	2005	2,000,000	@ \$0.25	26,160	26,160	31 Dec 2010
Executives						
Mr L Camacho	2006	1,000,000	@\$0.60	233,000	233,000	31 Dec 2009
	2005	-	-	-	-	-
Mr S Robertson	2006	1,000,000	@\$0.25	50,000	50,000	31 Dec 2010
	2005	-	-	-	-	-

The assessed fair value at grant date of options granted to the individuals is allocated equally at grant date and the amount is included in the remuneration tables above. Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year have been included in note 17 of the notes to the financial statements.

No shares in the Company have been issued as a result of the exercise of options by key management personnel.

Convertible Preference Shares

Convertible Preference Shares were issued to directors during the 2005 period as part of their remuneration and as incentive to increase goal convergence between directors and shareholders. Details of the conditions attaching to CPS are reflected in notes 17 and 18.

Specified Directors		No. Granted	Granted as remuneration \$
Mr A Short	2005	4	119,792
Mr A Bajada	2005	2	92,773
Mr G Sklenka	2005	2	92,773

No convertible preference shares were issued during the year ended 31 December 2006.

ADVANCE ENERGY LTD
ACN 111 823 762

DIRECTORS' REPORT (Continued)

E. Additional Information

Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance.

In considering the Company's performance and its effect on shareholder wealth, the Board have regard to a broad range of factors, some of which are financial and others of which relate to the progress on the Company's projects, results and progress of exploration and development activities, joint venture agreements etc. The Board also gives consideration to the Company's result and cash consumption for the year. It does not utilise earnings per share as a performance measure or contemplate payment of any dividends in the short to medium term given that all efforts are currently being expended to build the business and establish self-sustaining revenue streams.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial period, the Company maintained an insurance policy which indemnifies the Directors and Officers of Advance Energy Limited in respect of any liability incurred in connection with the performance of their duties as Directors or Officers of the Company. The Directors made a personal contribution toward the premium to satisfy Section 199B of the Corporations Act 2001. The Company's insurers have prohibited disclosure of the amount of the premium payable and the level of indemnification under the insurance contract.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for Leave of the Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the period.

SHARE OPTIONS

At the date of this report the following unlisted options over unissued shares in Advance Energy Ltd were on issue:

Expiry Date	Exercise Price	Number of shares under option
31 December 2010	\$0.25	13,850,000
15 December 2009	\$0.60	5,000,000
29 December 2009	\$0.65	250,000
TOTAL		19,100,000

During the year, 1,000,000 options were exercised and shares were issued at 25c per share.

No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

ADVANCE ENERGY LTD
ACN 111 823 762

DIRECTORS' REPORT (Continued)

CONVERTIBLE PREFERENCE SHARES

At the date of this report the following unlisted Convertible Preference Shares in Advance Energy Ltd were in issue:

	Number CPS in Issue
CPS B	5
CPS C	2
CPS D	2
Total	<u>9</u>

During the year 5 convertible preference shares were converted into 5,000,000 fully paid ordinary shares on the date of listing. Conditions relating to the outstanding CPS's are contained in note 17

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Horwath Audit (WA) Pty Ltd or associated entities. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

Horwath received or are due to receive the following amounts for the provision of non-audit services:

Horwath Taxation Services \$7,400

Auditors Independence Declaration

The auditors independence declaration for the financial period ended 31 December 2006 has been received and can be found on page 65.

Rounding of Amounts

The company is of a kind referred in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of the Board of Directors.



A. Bajada
Chairman



A. Short
Managing Director

West Perth, W.A.
23 March 2007



23 March 2007

The Board of Directors
Advance Energy Limited
PO Box 1779
WEST PERTH WA 6872

Horwath Audit (WA) Pty Ltd
ABN 79 112 284 787
Chartered Accountants
128 Hay Street Subiaco 6008
PO Box 700 West Perth 6872
Western Australia
Telephone (08) 9380 8400
Facsimile (08) 9380 8499
www.horwath.com.au

AUDITOR'S INDEPENDENCE DECLARATION

This declaration is made in connection with my audit of the financial report of Advance Energy Limited for the year ended 31 December 2006 and in accordance with the provisions of the Corporations Act 2001.

As lead auditor I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this audit.

HORWATH AUDIT (WA) PTY LTD

Horwath.
Glyn O'Brien

GLYN O'BRIEN
Director

ADVANCE ENERGY LTD
ACN 111 823 762

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Group		Parent Entity	
		2006 \$'000	14 Months ended 31 December 2005 \$'000	2006 \$'000	14 Months ended 31 December 2005 \$'000
Revenue from continuing operations	5	1,118	408	-	-
Cost of Oil & Gas sold		(297)	(79)	-	-
Gross profit		821	329	-	-
Other revenue		55	43	55	43
Depreciation	6,11	(106)	(13)	(30)	-
Depletion of oil and gas properties	6,12	(156)	(104)	-	-
Foreign exchange gains/(losses)		(23)	52	(437)	52
Staff costs	6	(1,369)	(714)	(1,369)	(713)
Administrative expenses	6	(1,674)	(557)	(1,399)	(461)
Operating result before interest and tax		(2,452)	(964)	(3,180)	(1,079)
Net finance costs		(1,119)	(362)	(662)	(362)
Finance charges earned		99	5	386	5
Finance costs	6	(1,218)	(367)	(1,048)	(367)
Loss before tax		(3,571)	(1,326)	(3,842)	(1,441)
Income tax benefit/(expense)	7	63	(1)	-	36
Net loss for the year attributable to the ordinary shareholders of the Company		(3,508)	(1,327)	(3,842)	(1,405)
Loss per share					
Basic (cents per share)	20	(6.59)	(9.27)	-	-

The Income Statements should be read in conjunction with the accompanying notes to the financial statements.

ADVANCE ENERGY LTD
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BALANCE SHEETS
AS AT 31 DECEMBER 2006

	Notes	Group		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current Assets					
Cash and cash equivalents	8	1,727	1,109	1,442	1,031
Receivables	9	465	178	85	53
Total current assets		2,192	1,287	1,527	1,084
Non current Assets					
Property, plant and equipment	11	1,427	82	138	-
Oil and gas properties	12	14,269	788	-	-
Deferred tax assets	22	110	11	-	-
Other financial assets	13	-	-	8,240	1,279
Exploration and evaluation costs	10	292	292	-	-
Total non current assets		16,098	1,173	8,378	1,279
Total Assets		18,290	2,460	9,905	2,363
Current Liabilities					
Payables	14	382	308	142	292
Provisions	15	44	13	44	12
Interest bearing liabilities	16	-	1,210	-	1,210
Total current liabilities		426	1,531	186	1,514
Non current liabilities					
Deferred tax liability	23	85	48	-	-
Interest bearing liabilities	16	12,336	-	4,274	-
Total non current liabilities		12,421	48	4,274	-
Total Liabilities		12,847	1,579	4,460	1,514
Net Assets		5,443	881	5,445	849
Equity					
Issued share capital	17	8,764	1,692	8,764	1,692
Reserves	18	1,514	516	1,928	562
Accumulated losses	19	(4,835)	(1,327)	(5,247)	(1,405)
Total Equity		5,443	881	5,445	849

The Balance Sheets should be read in conjunction with the accompanying notes to the financial statements.

ADVANCE ENERGY LTD
ACN 111 823 762

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

Notes	Group		Parent Entity	
	2006 \$'000	14 Months ended 31 December 2005 \$'000	2006 \$'000	14 Months ended 31 December 2005 \$'000
Cash flows from operating activities				
Receipts from customers	896	282	-	-
Payments to suppliers and staff	(2,446)	(592)	(1,581)	(488)
Interest received	99	5	99	54
Interest and borrowing costs	(269)	(85)	(99)	(85)
Other income	20	43	20	43
Net cash (used in) operating activities				
	(1,700)	(347)	(1,561)	(476)
Cash flows from investing activities				
Purchase of oil and gas properties	(13,795)	(891)	-	-
Purchase of plant and equipment	(1,511)	(95)	(168)	-
Payment for bonds	-	(13)	-	(13)
Exploration expenditure	-	(292)	-	-
Investment in subsidiary, net of cash acquired	-	-	-	(1)
Net cash (used in) investing activities				
	(15,306)	(1,291)	(168)	(14)
Cash flows from financing activities				
Proceeds from issues of shares	7,162	870	7,162	870
Capital raising costs	(485)	(119)	(485)	(119)
Proceeds from borrowings	13,612	1,996	5,450	1,996
Repayments of borrowings	(2,665)	-	(2,528)	-
Advances to subsidiary	-	-	(7,459)	(1,226)
Net cash flows provided by financing activities				
	17,624	2,747	2,140	1,521
Net increase in cash held	618	1,109	411	1,031
Cash at the beginning of the financial period	1,109	-	1,031	-
Cash at the end of the financial period	1,727	1,109	1,442	1,031

The Cash Flow Statements should be read in conjunction with the accompanying note 21 to the financial statements.

ADVANCE ENERGY LTD
ACN 111 823 762

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

CONSOLIDATED

Year ended
31 December 2006

\$'000

Balance at beginning of period

Issues of share capital

Cost of share based payments

Value of conversion rights – convertible note

Currency translation difference

Loss for period

	Issued Capital	Equity Reserve	Option Reserve	Foreign Currency Translated Reserve	Accumulated losses	TOTAL
Balance at beginning of period	1,692	418	144	(46)	(1,327)	881
Issues of share capital	7,072	(750)	-	-	-	6,322
Cost of share based payments	-	-	1,634	-	-	1,634
Value of conversion rights – convertible note	-	482	-	-	-	482
Currency translation difference	-	-	-	(368)	-	(368)
Loss for period	-	-	-	-	(3,508)	(3,508)
	8,764	150	1,778	(414)	(4,835)	5,443

14 Months ended
31 December 2005

\$'000

Balance at beginning of period

Issues of share capital

Cost of share based payments

Value of conversion rights – convertible note

Currency translation difference

Loss for period

	Issued Capital	Equity Reserve	Option Reserve	Foreign Currency Translated Reserve	Accumulated losses	TOTAL
Balance at beginning of period	-	-	-	-	-	-
Issues of share capital	1,692	-	-	-	-	1,692
Cost of share based payments	-	335	144	-	-	479
Value of conversion rights – convertible note	-	83	-	-	-	83
Currency translation difference	-	-	-	(46)	-	(46)
Loss for period	-	-	-	-	(1,327)	(1,327)
	1,692	418	144	(46)	(1,327)	881

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes to the financial statements

ADVANCE ENERGY LTD
ACN 111 823 762

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

PARENT ENTITY

Year ended
31 December 2006

\$'000

Balance at beginning of period

Issues of share capital

Cost of share based payments

Value of conversion rights – convertible note

Currency translation difference

Loss for period

	Issued Capital	Equity Reserve	Option Reserve	Foreign Currency Translated Reserve	Accumulated losses	TOTAL
Balance at beginning of period	1,692	418	144	-	(1,405)	849
Issues of share capital	7,072	(750)	-	-	-	6,322
Cost of share based payments	-	-	1,634	-	-	1,634
Value of conversion rights – convertible note	-	482	-	-	-	482
Currency translation difference	-	-	-	-	-	-
Loss for period	-	-	-	-	(3,842)	(3,842)
	8,764	150	1,778	-	(5,247)	5,445

14 Months ended
31 December 2005

\$'000

Balance at beginning of period

Issues of share capital

Cost of share based payments

Value of conversion rights – convertible note

Currency translation difference

Loss for period

	Issued Capital	Equity Reserve	Option Reserve	Foreign Currency Translated Reserve	Accumulated losses	TOTAL
Balance at beginning of period	-	-	-	-	-	-
Issues of share capital	1,692	-	-	-	-	1,692
Cost of share based payments	-	335	144	-	-	479
Value of conversion rights – convertible note	-	83	-	-	-	83
Currency translation difference	-	-	-	-	-	-
Loss for period	-	-	-	-	(1,405)	(1,405)
	1,692	418	144	-	(1,405)	849

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Advance Energy Limited as an individual entity and the consolidated entity consisting of Advance Energy Limited and its subsidiaries.

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

i) Compliance with IFRSs

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of value AIFRS comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs.

ii) Early adoption of standards

The Group has elected to apply the following pronouncements to the annual reporting period beginning 1 January 2006.

- UIG 8 Scope of AASB 2 (issued March 2006), application date periods commencing 1 May 2006
- UIG 9 Reassessment of Embedded Derivatives (issued April 2006), application date periods commencing 1 June 2006
- UIG 10 Interim Financial Reporting and Impairment (issued September 2006), application date periods commencing 1 November 2006

This includes applying the pronouncements to the comparatives in accordance with AASB 108 Accounting Policies, changes in Accounting Estimates and Errors. No adjustments were required for any of the above interpretations.

iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

iv) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

v) Comparative Figures

As the 2005 was the company's first reporting period, all comparative figures relate to the 14 months ended 31 December 2005.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

(b) Principles of Consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Advance Energy Limited ("company" or "parent entity") as at 31 December 2006 and the results of all subsidiaries for the year then ended. Advance Energy Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Advance Energy Limited.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Advance Energy Limited's functional and presentation currency. The functional currency of the overseas subsidiaries is US\$.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

ADVANCE ENERGY LTD
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised as follows:

(i) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(ii) Oil and Gas revenue

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(f) Inventories

Oil stocks and field consumables are stated at the lower of cost and net realisable value. Cost includes all expenditure incurred in acquiring and bringing the inventories to their existing condition and location.

ADVANCE ENERGY LTD
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

(g) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement between thirty (30) and ninety (90) days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

(h) Property, Plant and Equipment

i) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated losses impairment.

ii) Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset which is estimated to vary between 5 and 15 years

iii) Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised separately in the income statement.

Any item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

i) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense in the income statement on a straight line basis over the lease term.

(j) Investments and other financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 9).

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve (12) months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expenses in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within other income or other expenses in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for sale or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

ADVANCE ENERGY LTD
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss- measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(k) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. Costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the period in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure.

(l) Oil and gas properties

Following commencement of production activities all acquisition, exploration, evaluation and development expenditure in relation to an area of interest is accumulated into and oil and gas property.

When further development expenditure is incurred in respect of a property after the commencement of production, such expenditure is carried forward as part of the cost of that property only when substantial economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation of the cost of oil and gas properties is provided on the unit-of-production basis over the proved developed reserves of the field concerned with separate calculations being made for each resource. The unit-of-production basis results in an amortisation charge proportional to the depletion of the economically recoverable reserves. Amortisation is charged from the commencement of production.

The net carrying value of each property is reviewed regularly for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If the asset does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. If such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

The recoverable amount is the greater of fair-value less costs to sell and value in use. In assessing value in use, the estimated cash flows are discounted to their present value using the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the assets

ADVANCE ENERGY LTD
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

(m) Fair Value estimation

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

The fair value of financial assets and financial liabilities must be estimated for recognition and measured or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example convertible notes) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held.

Other techniques such as estimated discounted cash flows, are used to determine fair value for remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(n) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholder's equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year, which remain unpaid at year end. The amounts are unsecured and are usually paid within 60 days of recognition.

(p) Provisions

Provision is made for employee entitlement benefits as a result of employees rendering services up to balance date. These benefits include salary and wages, annual leave and long service leave. Liabilities in respect of salary and wages and annual leave expected to be settled within 12 months of the reporting date are measured at their nominal value. The liability for long service leave is measured at the present value of expected future outflows to be made in respect of services provided by employees up to the reporting date.

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

ADVANCE ENERGY LTD
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(q) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(r) Share Based Payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black & Scholes method.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than those specified in the Terms and Conditions of the Convertible Preference Shares.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognized for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

ADVANCE ENERGY LTD
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(s) Borrowing Costs

Borrowing costs are recognised as an expense when incurred except if costs were incurred for the construction of any qualifying asset, where the costs are capitalised over the period that is required to complete and prepare the asset for its intended use or sale.

(t) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(u) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases or assets and liabilities are recognised for all taxable temporary differences:

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised:

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future extent that it is probable that the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except;

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authorities, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(w) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction, net of tax, of the share proceeds received.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary share and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(y) Rounding of amounts

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

(z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Standards (AASB 132, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038)

AASB7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. These risks include:

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar.

(ii) Oil and gas price risk

The Group is exposed to oil and gas price risk. The price the company achieves for its product is closely linked to various index's relevant to its area of operations. As with most commodities, this fluctuates both in line with seasonal demand and overall market conditions.

The company has a hedging policy which will hedge up to 50% of expected production up to 12 months in advance. Additional hedging over and above the 50 % base may be applied as the directors feel necessary.

(b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. Group policy is to fix the rates as and when possible.

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3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment

The Group tests annually whether oil and gas properties have suffered any impairment, in accordance with the accounting policy stated in note 1 (h). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Some of these assumptions may be amended in the future and this may lead to the subsequent impairment of the assets concerned.

(ii) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

(iii) Fair Value of Securities

- Options

The total estimated value of options expenses during the period was \$1.634 million (2005: \$0.144 million). The assessed fair value at grant date of options granted during the period was written to the Income Statement. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. Further details of the valuation basis is included in note 18. Should these options not be exercised by the expiring dates, these amortised amounts will be written back to the income statement in full.

- Convertible Notes

Convertible notes issued during the year included an option to convert into ordinary shares. This option is exercisable at the option of the holder before expiration of the eighteen month period.

Under AASB 132, all classes of convertible notes are classified as compound financial instruments in that they have both a liability and equity component. AVD is required to classify the liability and equity components separately in its financial statements. AASB 139 'Financial Instruments: Recognition and Measurement' deals with the measurement of financial assets and liabilities. Equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instruments as a whole the amount first determined for the liability component.

The directors have considered an appropriate discount rate that would apply to a comparable note without a conversion option to be between 8.9% and 9.5%. As the liability component exceeds the face value of the Notes, no value exists for the equity component of the notes. The assumptions used are reflected in note 17. Should these notes not be converted, they will have no effect on equity as they will be repaid.

- Converting Preference Shares

The assessed fair value at grant date of CPS's granted during the 2005 period was independently determined using a Black-Scholes pricing model that takes into account the exercise price, the term of the CPS, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the CPS, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

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Since issue the estimated full value of CPS's is amortised to the Income Statement by assuming the probability of conversion equal to the percentage production achieved. Should conversion quotas not be achieved however, these amounts will be written back to the Income Statement.

iv) Exploration expenditure

Expenditure and development expenditure that does not form part of the cash generating units assessed for impairment has been carried forward on the basis that exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing. In the event that significant operations cease and/or economically recoverable reserves are not assessed as being present, this expenditure will be expensed to the Income Statement.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4. SEGMENT REPORTING

Business Segment

The consolidated entity operates solely in the exploration and development of properties for the development of oil and gas. Therefore only geographical segment information is provided.

Geographical Segments

All operational activities are located in Texas in the USA. The head office is based in Perth, Australia.

2006

Geographical segment

	USA \$'000	Australia \$'000	Eliminations \$'000	Consolidated \$'000
Revenues from continuing operations	1,118	-	-	1,118
Segment result (loss)	(80)	(3,842)	414	(3,508)
Segment assets	16,625	9,905	(8,240)	18,290
Segment liabilities	16,626	4,460	(8,239)	12,847
Acquisition of plant & equipment, exploration & evaluation and other non-current assets	15,139	167	-	15,306
Depreciation and amortisation	232	30	-	262

14 Months ended 31 December 2005

Geographical segment

	USA \$'000	Australia \$'000	Eliminations \$'000	Consolidated \$'000
Revenues from continuing operations	408	-	-	408
Segment result (loss)	78	(1,405)	-	(1,327)
Segment assets	1,377	2,363	(1,280)	2,460
Segment liabilities	1,343	1,514	(1,278)	1,579
Acquisition of plant & equipment, exploration & evaluation and other non-current assets	1,279	-	-	1,279
Depreciation and amortisation	117	-	-	117

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5. REVENUE FROM CONTINUING OPERATIONS

	GROUP		PARENT ENTITY	
	2006 \$'000	14 Months ended 31 December 2005 \$'000	2006 \$'000	14 Months ended 31 December 2005 \$'000
Oil and gas sales	1,118	408	-	-

6. EXPENSES

	GROUP		PARENT ENTITY	
	2006 \$'000	14 Months ended 31 December 2005 \$'000	2006 \$'000	14 Months ended 31 December 2005 \$'000
Loss from continuing operations before income tax has been determined after				
(a) Depreciation and depletion				
Depreciation of plant and equipment	106	13	30	-
Depletion of oil and gas properties	156	104	-	-
Total depreciation and depletion	262	117	30	-
(b) Lease payments				
Minimum lease payments				
- operating lease	61	55	61	55
(c) Employee benefit expense				
Directors expense	313	409	313	409
Expense of share base payments	694	410	360	305
(d) Finance costs				
Interest on borrowings	293	62	123	62
Borrowing costs	925	305	925	305
	1,218	367	1,048	367

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FOR THE YEAR ENDED 31 DECEMBER 2006

7. INCOME TAX

	GROUP		PARENT ENTITY	
	2006 \$'000	14 Months ended 31 December 2005 \$'000	2006 \$'000	14 Months ended 31 December 2005 \$'000
a) Income tax (benefit)/expense				
Current income tax charge	-	-	-	-
Deferred income tax relating to origination of temporary differences	(63)	1	-	36
Income tax (benefit)/expense reported in the Income Statement	(63)	1	-	1
b) Deferred income tax (benefit)/expense				
Decrease/(increase) in deferred tax asset	(106)	(11)	-	-
(Decrease)/increase in deferred tax liability	43	12	-	-
	(63)	1	-	-
c) Amounts recognised directly in equity				
Net deferred tax debited directly to equity	-	36	-	-
d) Numerical reconciliation of income tax expense to prima facie tax payable				
Accounting loss before tax	(3,571)	(1,327)	(3,842)	(1,405)
At statutory income tax rate of 30%	(1,072)	(399)	(1,152)	(422)
Expenditure not allowable for tax purposes	492	121	492	121
Unrecognised tax losses	536	323	660	323
Other	(19)	(44)	-	(58)
Income tax (benefit)/expense	(63)	1	-	(36)
e) Unrecognised timing differences and tax losses:				
Parent tax loss for the year	423	323	425	323
<i>Australian timing differences:</i>				
Capital raising expenses	6	-	6	-
Depreciable assets	4	-	4	-
Accrued expenses	35	-	35	-
Borrowing costs	63	-	63	-
Unrealised forex losses	-	-	124	-
Accrued interest	8	-	8	-
Non-deductible employee entitlements	4	-	4	-
Superannuation	1	-	1	-
Deductible employee entitlements	(4)	-	(4)	-
Accrued expenses opening balance	(6)	-	(6)	-
Total unrecognised	536	323	660	323

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The franking balance as at the end of the year was nil (2005:nil)

Net deferred assets for the parent company have not been brought into account as it is not probable within the immediate future profits will be available against which deductible temporary differences and tax losses can be utilised.

Advance Energy Ltd has tax losses arising in Australia of \$2,495,549 (2005: \$1,076,852) that are available indefinitely to offset against future profits of the Company providing the tests for deductibility against future profits are met.

8. CASH AND CASH EQUIVALENTS

	GROUP		PARENT ENTITY	
	2006	14 Months ended 31 December 2005	2006	14 Months ended 31 December 2005
	\$'000	\$'000	\$'000	\$'000
Cash at bank	1,727	1,109	1,442	1,031

Cash at bank earns interest of floating interest rates of between 6.5% and 8.5% (2005: 5.4%).

9. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT ENTITY	
	2006	14 Months ended 31 December 2005	2006	14 Months ended 31 December 2005
	\$'000	\$'000	\$'000	\$'000
Current				
Trade receivables	414	126	35	-
Other receivables	51	52	50	53
	465	178	85	53

10. EXPLORATION & EVALUATION COSTS

	GROUP		PARENT ENTITY	
	2006	14 Months ended 31 December 2005	2006	14 Months ended 31 December 2005
	\$'000	\$'000	\$'000	\$'000
Non-Current				
Exploration, evaluation and development costs carried forward in respect of areas of interest in exploration and evaluation phases	292	292	-	-
Reconciled as follows:				
Opening balance	292	-	-	-
Exploration assets acquired during the period	-	292	-	-
Closing Balance	292	292	-	-

The ultimate recoupment of these costs is dependent on successful development and commercial exploitation, or alternatively, the sale of the respective areas.

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FOR THE YEAR ENDED 31 DECEMBER 2006

11. PROPERTY, PLANT AND EQUIPMENT

	GROUP		PARENT ENTITY	
	2006 \$'000	14 Months ended 31 December 2005 \$'000	2006 \$'000	14 Months ended 31 December 2005 \$'000
Plant and equipment -- cost	1,541	95	168	-
Less accumulated depreciation	(114)	(13)	(30)	-
	1,427	82	138	-
Movements in carrying amounts are reconciled as follows:				
Balance at the beginning of period	82	-	-	-
Additions	1,511	95	168	-
Disposals	-	-	-	-
Depreciation expense	(106)	(13)	(30)	-
Foreign exchange difference	(60)	-	-	-
	1,427	82	138	-

12. OIL AND GAS PROPERTIES

	GROUP		PARENT ENTITY	
	2006 \$'000	14 Months ended 31 December 2005 \$'000	2006 \$'000	14 Months ended 31 December 2005 \$'000
Oil and gas properties -- cost	14,517	892	-	-
Less accumulated depletion	(248)	(103)	-	-
	14,269	788	-	-
Movements in carrying amounts are reconciled as follows:				
Opening balance	788	-	-	-
Acquired during period	13,795	892	-	-
Depletion charge	(156)	(104)	-	-
Foreign exchange difference	(158)	-	-	-
	14,269	788	-	-

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13. OTHER FINANCIAL ASSETS

	GROUP		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Non-Current				
Shares in subsidiaries (Note 22)	-	-	1	1
Loans to subsidiaries	-	-	8,239	1,278
	-	-	8,240	1,279

Loans to subsidiaries are repayable at reasonable call with an interest rate of US prime plus 1.0%, capitalised annually. There is no immediate intention to recall the loan.

14. TRADE AND OTHER PAYABLES

	GROUP		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade creditors	24	45	25	29
Accruals	358	263	117	263
	382	308	142	292

15. PROVISIONS

	GROUP		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Employee benefits	44	13	44	12
Number of employees at year end	2	3	2	3

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16. INTEREST BEARING LOANS AND BORROWINGS

	GROUP		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Current				
Convertible Note – unsecured	-	1,210	-	1,210
Comprising:				
Face value of the note	-	1,329	-	1,329
Other equity securities – value of conversion rights	-	(119)	-	(119)
	-	1,210	-	1,210

	GROUP		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Non-current				
Convertible Notes – unsecured ¹				
Face value of the note	4,250	-	4,250	-
Interest accrued	24	-	24	-
	4,274	-	4,274	-
Bank loan – secured ²	8,062	-	-	-
	12,336	-	4,274	-

- 1) During November and December 2006 the Company issued five new convertible notes with a face value totalling \$4,250,000. In aggregate these convertible notes may be converted into a maximum of 6,250,000 shares at the option of the holder before the repayment dates. The term of the note is eighteen (18) months with a coupon of 11% per annum. \$3,000,000 of these notes may be converted into a fixed 3,750,000 shares. The balance of \$1,250,000 may be converted at the higher of 50 cents or 80% of the market value prevalent at the time of conversion.
- 2) During February 2006, the Company entered into a revolving line of credit with a Stirling bank in the U.S. Generally, the borrowing base of the line of credit as determined by the bank approximates the company's investment in oil and gas properties, up to a maximum of US\$ 20 million. The loan bears interest at US prime plus 1.5% and is secured against the company's oil and gas properties. This loan is repayable on 10 February 2008, and the intention is to renegotiate in the normal course of business.

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17. ISSUED CAPITAL

17.1 Ordinary shares

	GROUP		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
68,199,099 fully paid ordinary shares (2005: 33,137,766)	8,764	1,692	8,764	1,692
Movements in shares on issue				
Beginning of period	1,988	-	1,988	-
Shares issued during the period				
7 ordinary shares issued @ \$1.00				
10,000,000 ordinary shares issued @ \$0.0001¢	-	1	-	1
16,318,156 ordinary shares issued @ \$0.08¢	-	1,305	-	1,305
6,819,603 ordinary shares issued @ \$0.10¢	-	682	-	682
1,728,000 shares issued @ \$0.10¢	173	-	173	-
333,333 @ \$0.15¢	50	-	50	-
27,000,000 @ \$0.25¢	6,750	-	6,750	-
Converting 5 Preference Shares into 5,000,000 ordinary shares	750	-	750	-
1,000,000 Options exercised @ \$0.25¢	250	-	250	-
	9,961	1,988	9,961	1,988
Less capital raising costs	(1,197)	(296)	(1,197)	(296)
End of period	8,764	1,692	8,764	1,692

- (a) Effective 1 July 1998 the Corporations Legislation in place abolished the concepts of authorised capital and par value of shares. Accordingly the Parent does not have authorised capital or par value in respect of issued shares.
- (b) Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.
- (c) At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

17.2 Options

The movements in options over ordinary shares during the year were as follows:

2006					
Expiry Date	Exercise Price	Number at beginning of period	Issued	Exercised	Number at end of period
31 December 2010	\$0.25	10,000,000	4,850,000	(1,000,000)	13,850,000
15 December 2009	\$0.60	-	5,000,000	-	5,000,000
29 December 2009	\$0.65	-	250,000	-	250,000
		10,000,000	10,100,000	(1,000,000)	19,100,000

14 Months ended 31 December 2005					
Expiry Date	Exercise Price	Number at beginning of period	Issued	Exercised	Number at end of period
31 December 2010	\$0.25	-	10,000,000	-	10,000,000

No options have expired or have been cancelled since incorporation.

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17.3 Converting Preference Shares

All convertible preference shares were issued during the period ended 31 December 2005.
The movement in Converting Preference Shares during the year were as follows:

2006 Class	No. at beginning of period	Issued	Converted into ords	No. at end of period
CPS - A	5	-	(5)	-
CPS - B	5	-	-	5
CPS - C	2	-	-	2
CPS - D	2	-	-	2
	14	-	(5)	9

Each Converting Preference Share (CPS) convert into 1,000,000 ordinary shares as follows:

CPS-A – upon the Company's shares being listed on the main board of the ASX, these were converted into ordinary shares on date of listing, being 2 June 2006.

CPS-B – upon the Company achieving production of 500 BOPD

CPS-C – upon the Company achieving production of 1000 BOPD

CPS-D – upon the Company achieving production of 1500 BOPD

18. RESERVES

	GROUP		PARENT ENTITY	
	2006 \$'000	14 Months ended 31 December 2005 \$'000	2006 \$'000	14 Months ended 31 December 2005 \$'000
Option reserve ⁽¹⁾	1,778	144	1,778	144
Foreign currency translation reserve ⁽²⁾	(414)	(46)	-	-
Equity reserve ⁽³⁾	150	418	150	418
	1,514	516	1,928	562
⁽¹⁾ Option reserve				
Opening balance	144	-	144	-
Issue of options during period	1,634	144	1,634	144
	1,778	144	1,778	144
⁽²⁾ Foreign currency translation				
Opening balance	(46)	-	-	-
Currency translation differences arising during the year	(368)	(46)	-	-
	(414)	(46)	-	-
⁽³⁾ Equity reserve				
Opening balance	418	-	418	-
Issue of CPS	601	335	601	335
Conversion into ordinary shares	(750)	-	(750)	-
Value of conversion right convertible note	(119)	119	(119)	119
Deferred tax component	-	(36)	-	(36)
	150	418	150	418

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Nature and purpose of reserves

⁽¹⁾ Option reserve

The option reserve is used to recognise the fair value of options issued but not exercised.

Fair value of options granted

The assessed fair value at grant date of options granted during the period is between 12.8¢ and 23.3¢ (2005:\$0.0138) cents per option. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the period included:

- (a) options are granted for no consideration
- (b) expected price volatility of the company's shares: between 27.0% and 50.0%
- (c) expected dividend yield: 0%
- (d) risk-free interest rate: between 5.7% and 5.9%

The expected price volatility is based on the historic volatility of an average of comparable companies.

⁽²⁾ Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

⁽³⁾ Equity reserve

The equity reserve is used to recognise the amortised portion of the fair value of CPS's issued and the equity component of the convertible note issued during the period.

Fair Value of CPS granted

The assessed fair value at grant date of CPS's granted during the period ending 31 December 2005 was:

-	CPS A	\$149,000 per CPS
-	CPS B	\$ 89,300 per CPS
-	CPS C	\$ 29,800 per CPS
-	CPS D	\$ 3,000 per CPS

The fair value at grant date is independently determined using a Black-Scholes pricing model that takes into account the exercise price, the term of the CPS, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the CPS, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The amount disclosed as contributed equity represents the amount paid per CPS of \$0.0001 each plus the amortised value as prescribed by AASB139. The following assumptions were utilised in calculating fair value of the shares.

- (a) underlying security spot price at grant: \$0.15
- (b) expected price volatility of the company's shares: 50.23%
- (c) expected dividend yield: 0%
- (d) risk-free interest rate: 5.70%

The expected price volatility is based on the historic volatility of an average of comparable companies.

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The total value of the CPS were calculated at \$1,258,100. The total value is being amortised to the income statement in line with production. At the end of the year \$936,720 (2005: \$454,000) in aggregate had been reflected through the income statement.

19. ACCUMULATED LOSSES

	GROUP		PARENT ENTITY	
	2006	14 Months ended 31 December 2005	2006	14 Months ended 31 December 2005
	\$'000	\$'000	\$'000	\$'000
Accumulated losses at the beginning of the year	(1,327)	-	(1,405)	-
Net loss attributable to the members of the parent entity	(3,508)	(1,327)	(3,842)	(1,405)
Accumulated losses at the end of the financial year	(4,835)	(1,327)	(5,247)	(1,405)

20. EARNINGS PER SHARE

	GROUP	
	2006	14 Months ended 31 December 2005
	\$'000	\$'000
Reconciliation of earnings to net loss		
Net loss	(3,508)	(1,327)
Earnings/(loss) used in the calculation of basic and dilutive EPS	(3,508)	(1,327)
Weighted average number of ordinary shares outstanding during the period used in calculation of basic and dilutive EPS	Number	Number
	53,207,976	14,314,199

Details of the shares issued are included under notes 17 and 18. Dilutive EPS is not reflected as it would result in the reduction of the loss per share.

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21. CASH FLOW INFORMATION

Reconciliation of cash flow from operations with loss from continuing operations after income tax.

	GROUP		PARENT ENTITY	
	2006	14 Months ended 31 December 2005	2006	14 Months ended 31 December 2005
	\$'000	\$'000	\$'000	\$'000
Loss from ordinary activities after income tax	(3,508)	(1,327)	(3,842)	(1,405)
Non cash flows in loss from continuing operations				
Depreciation	106	13	30	-
Depletion	156	104	-	-
Increase/decrease in provisions	32	13	32	13
CPS costs amortised	517	-	517	-
Equities issued in lieu of payment	1,248	761	1,248	761
Income not received	(287)	(126)	(93)	-
Interest accrued not paid	24	-	24	-
Foreign exchange difference	(109)	(55)	437	(52)
Reversal of deferred tax liability	-	(36)	-	(37)
Changes in assets and liabilities				
Increase in trade creditors and accruals	154	307	118	283
Increase in other debtors	29	(39)	(32)	(39)
Increase in deferred tax assets	(99)	(11)	-	-
Increase in deferred tax liabilities	37	49	-	-
Cash flows from (used in) operations	(1,700)	(347)	(1,561)	(476)

22. DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:

	GROUP		PARENT ENTITY	
	2006	14 Months ended 31 December 2005	2006	14 Months ended 31 December 2005
	\$'000	\$'000	\$'000	\$'000
Organisation costs	2	4	-	-
Book depletion	2	1	-	-
Net operating loss	106	6	-	-
Net deferred tax asset	110	11	-	-
Movements:				
Opening balance	11	-	-	-
Amount brought to account	105	11	-	-
Foreign exchange difference	(6)	-	-	-
Closing balance	110	11	-	-

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

23. DEFERRED TAX LIABILITIES

The balance comprises temporary differences attributable to:

Intangible drilling costs

Movements:

Opening balance

Amount brought to account

Foreign exchange difference

Closing balance

	GROUP		PARENT ENTITY	
	2006 \$'000	14 Months ended 31 December 2005 \$'000	2006 \$'000	14 Months ended 31 December 2005 \$'000
Intangible drilling costs	85	48	-	-
Opening balance	48	-	-	-
Amount brought to account	43	48	-	-
Foreign exchange difference	(6)	-	-	-
Closing balance	85	48	-	-

24. SUBSIDIARIES

The Company as the following Subsidiary

Name of Subsidiary	Place of Incorporation	Percentage held 2006	Percentage held 2005
Advance Exploration and Production, Inc	Texas USA	100%	100%
AEPI Midstream, Inc	Texas USA	100%	-

Advance Exploration and Production, Inc was incorporated on 1 July 2005 with initial issued capital of US\$1,000 (A\$1,282).

AEPI Midstream was incorporated on 20 September 2006 to hold the Group's midstream assets, with initial issued capital of US\$1,000. (A\$1,282).

25. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Directors or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company or its subsidiary in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis. The aggregate amounts recognised during the year relating to specified directors and their personally-related entities are included in the primary benefits component of remuneration of directors by the consolidated entity in the remuneration report.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

Details of the transactions including amounts accrued but unpaid at the end of the period are as follows:

Specified Director	Transaction	Note	2006 \$'000	2005 \$'000
Alex Bajada	Consulting fees	(i)	177	61
Anthony Short	Consulting fees	(ii)	362	247
Gordon Sklenka	Consulting fees	(iii)	226	100

- (i) The Company used the management consulting services of Spartan Nominees Pty Ltd, a company of which Mr Alex Bajada is a director.
- (ii) The Company used the consulting services of Cumberland Investments (WA) Pty Ltd, a company of which Mr Anthony Short is a director.
- (iii) The Company used the consulting services of Formaine Pty Ltd, a company of which Mr Gordon Sklenka is a related party.

Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

Spartan Nominees Pty Ltd, a company of whom Mr Alex Bajada is a director, provided administration personnel to the company which was reimbursed at cost. The amount reimbursed totalled 28,348 (2005: \$26,177.84.)

Fay Nominees Pty Ltd and Short Nominees Pty Ltd, companies of which Mr Anthony Short is a director, provided loans to the Company which were converted into 3,650,000 ordinary shares in the Company during 2005.

(b) Wholly owned group transactions

Details of interests in wholly owned controlled entities are set out in Note 24.

Details of inter company loans are:

	GROUP		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Balances with entities in the wholly-owned group receivable – non-current	-	-	8,240	1,279

Loans between entities in the wholly owned group bear interest at market rates, are unsecured and are repayable upon reasonable notice having regard to the financial stability of the Company.

(c) Share and Option holdings

The interests of the Directors in shares, Convertible Preference Shares ("CPS") and options of the Company were:

2005 Director		No. of Shares Held Directly	No. of Shares Held Indirectly	No. of Options Held Directly.	No. of Options Held Indirectly	No. of CPS Held Directly	No. of CPS Held Indirectly
Alex Bajada	2006	-	3,020,001	-	2,000,000	-	1
	2005	-	2,000,001	-	2,000,000	-	2
Anthony Short	2006	-	8,674,002	-	4,000,000	-	3
	2005	-	7,650,002	-	4,000,000	-	4
Gordon Sklenka	2006	-	3,000,000	-	2,000,000	-	1
	2005	-	2,000,000	-	2,000,000	-	2

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

26. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Names and positions of parent entity directors in office at any time during the financial period are:

Mr A Bajada - Non-Executive Chairman
 Mr A Short - Managing Director
 Mr G Sklenka - Non-Executive Director

EXECUTIVES

Mr L Camacho - Company Secretary (appointed 28 August 2006)
 Mr S Robertson - Company Secretary (resigned 1 August 2006)

(b) **Parent Entity Directors' Remuneration**

The remuneration for each director and specified executive of the company during the period is set out in the Directors report under the heading "Remuneration report (audited)".

27. REMUNERATION OF AUDITORS

Amounts received or due and receivable by Horwath (WA) Pty Ltd for:
 Audit or review of the financial report of the entity and any other entity in the Group
 Other services in relation to the entity and any other entity in the Group – Taxation

	GROUP		PARENT ENTITY	
	2006 \$	14 Months ended 31 December 2005 \$	2006 \$	14 Months ended 31 December 2005 \$
	30,000	25,000	30,000	25,000
	7,400	-	7,400	-
	37,400	25,000	37,400	25,000

28. FINANCIAL INSTRUMENTS

(a) **Credit Risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the Balance Sheet and notes to the financial statements.

The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company.

(b) **Net Fair Values**

No financial assets or financial liabilities are readily traded on organised markets in a standardised form.

The fair values of financial assets and financial liabilities approximate the carrying values as disclosed in the financial statements.

(c) **Interest Rate Risk**

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

	Weighted Average Effective Interest Rate	Floating Interest Rate \$'000	Fixed Interest Rate Maturing Within Period \$'000	Non-Interest Bearing \$'000	TOTAL \$'000
2006					
Financial Assets					
Cash	6.5%	1,727	-	-	1,727
Receivables	-	-	-	465	465
Total Financial Assets	-	1,727	-	465	2,192
Financial Liabilities					
Trade Creditors and accruals	-	-	-	382	382
Convertible Note	11%	-	4,274	-	4,274
Interest bearing borrowings	9.5%	8,062	-	-	8,062
Total Financial Liabilities	-	8,062	4,274	382	12,718

	Weighted Average Effective Interest Rate	Floating Interest Rate \$'000	Fixed Interest Rate Maturing Within Period \$'000	Non-Interest Bearing \$'000	TOTAL \$'000
2005					
Financial Assets					
Cash	15.4%	1,109	-	-	1,109
Receivables	-	-	-	178	178
Total Financial Assets		1,109	-	178	1,287
Financial Liabilities					
Trade Creditors and accruals	-	-	-	308	308
Convertible Note	15%	-	1,210	-	1,210
Total Financial Liabilities		-	1,210	308	1,518

(d) Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is exposed to foreign exchange risk from currency exposure to the US dollar. The Group does not currently undertake any hedging activities and will continuously review its exposure.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2006

29. COMMITMENTS

	GROUP		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Operating lease				
The Group leases an office under a non-cancellable operating lease expiring within one year. On renewal the terms of the lease is renegotiable.				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one (1) year	10	11	10	11
Between 1 and 5 years	-	-	-	-
Longer than 5 years	-	-	-	-
Capital commitments				
At the end of the period, the Group has commitments principally relating to the drilling and development of its oil and gas properties as follows:				
Within one (1) year	155	259	-	-
Between 1 and 5 years	-	-	-	-
Longer than 5 years	-	-	-	-

30. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Subsequent to the year end, the company has raised an additional \$1,275,000 through the issue of additional convertible notes. These are on similar conditions as those outstanding at the end of the financial year as per note 16. In aggregate these convertible notes may be converted into a maximum of 1,800,000 shares at the option of the holder before the repayment dates. The term of the notes is eighteen (18) months with a coupon of 11% per annum. \$275,000 of these notes may be converted at the higher of 50 cents or 80% of the market value prevalent at the time of conversion. The balance of \$1,000,000 is convertible into a fixed 1,250,000 shares.

The company also repaid a convertible note to the value of \$750,000, which was convertible into a maximum of 1,500,000 shares.

Other than the matters mentioned above, up to the date of this report, there have been no other materially significant events.

31. CONTINGENCIES

There were no known contingencies at year end.

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DIRECTORS' DECLARATION

The directors of the Company declare that:

- 1 the financial statements and notes, as set out on pages 28 to 60, are in accordance with the Corporations Act 2001 and:
 - a) comply with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b) give a true and fair view of the financial position as at 31 December 2006 and of the performance for the period ended on that date of the company and Group;

- 2 the Chief Executive Officer and Chief Finance Officer have each declared that:
 - a) the financial records of the company for the financial period have been properly maintained in accordance with section 286 of the Corporations Act 2001
 - b) the financial statements and notes for the financial period comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial period give a true and fair view.

- 3 in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

4. The audited remuneration disclosures set out on pages 21 to 26 of the directors report comply with Accounting Standard AASB124 related party disclosures and the Corporations Regulations 2001

This declaration is made in accordance with a resolution of the Board of Directors.



A. Bajada
Chairman

West Perth, Western Australia
23 March 2007



A. Short
Managing Director

Horwath Audit (WA) Pty Ltd
ABN 79 112 284 787
Chartered Accountants
128 Hay Street Subiaco 6008
PO Box 700 West Perth 6872
Western Australia
Telephone (08) 9380 8400
Facsimile (08) 9380 8499
www.horwath.com.au

Independent audit report on the financial report to members of Advance Energy Limited

We have audited the accompanying financial report of Advance Energy Limited (the company) and the consolidated entity for the year ended 31 December 2006. The financial report comprises the balance sheet at 31 December 2006, and the income statement, statement of changes in equity, cash flow statement, summary of significant accounting policies and other explanatory notes, and the directors' declaration for the year then ended.

We have also audited the information about the remuneration of directors and executives ("remuneration disclosures"), the company has disclosed in accordance with Accounting Standard AASB 124 Related Party Disclosures, under the heading "remuneration report" in pages 21 to 25 of the directors' report, as permitted by the Corporations Regulations 2001.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and the remuneration disclosure based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

We are independent of the company and the group, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditors' Independence Declaration, a copy of which is included following the Directors' Report.

Auditor's Opinion

In our opinion:

1. The financial reports of Advance Energy Limited and the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the company's and the group's financial position as at 31 December 2006 and of its performance for the year ended on that date; and
 - (b) complying with Accounting Standards in Australia including the Australian Accounting Interpretations and the Corporations Regulations 2001.
2. The remuneration disclosures that are contained in pages 21 to 25 of the directors' report comply with Accounting Standard AASB 124 and the Corporations Regulations 2001.

Dated the 23rd day of March 2007.

HORWATH AUDIT (WA) PTY LTD

HORWATH.

GLYN O'BRIEN
Director

ADVANCE ENERGY LTD
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TWENTY LARGEST SHAREHOLDERS

SHAREHOLDERS (Fully Paid Ordinary)	NUMBER OF SHARES	%
Bardev Pty Ltd	8,545,281	12.530
Fay Holdings Pty Ltd	6,931,250	10.163
Spartan Nominees Pty Ltd	3,020,001	4.428
Beachcraft Pty Ltd	3,010,000	4.414
Formaine Pty Ltd	3,000,000	4.399
Short Nominees Pty Ltd	1,718,750	2.520
Dalveen Pty Ltd	1,333,333	1.955
Mr Sharif Oussa	1,000,000	1.466
ACT2 Pty Limited	1,000,000	1.466
Richard Palmer & Tracey-Ann Palmer	800,000	1.173
Mr Denis Michael Cullity	672,875	0.987
Bouchi Pty Ltd	600,000	0.880
Landlord Holdings Pty Ltd	600,000	0.880
Preferential Capital Pty Ltd	550,000	0.806
ANZ Nominees Limited	521,407	0.765
John Wardman & Associates Pty Ltd	510,000	0.748
Peter Arundal Vial	500,000	0.733
Martin Place Securities Nominees Pty Limited	500,000	0.733
Level 1 Pty Ltd	405,000	0.594
Machinery Automation & Robotics Pty Ltd	400,000	0.587
TOP 20 SHAREHOLDERS	35,617,897	52.226
TOTAL ISSUED SHARES	68,199,099	100

Distribution schedule of the number of holders in each class of equity security.

By Class	Holder of Ordinary shares	Number of Ordinary shares	%
1 – 1,000	8	3,640	0.005
1,001 – 5,000	49	165,003	0.242
5,001 – 10,000	170	1,424,282	2.088
10,001 – 100,000	334	13,143,924	19.273
100,001 and over	99	53,462,250	78.391
Totals	660	68,199,099	100.000

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ADDITIONAL SHAREHOLDER INFORMATION

A. CORPORATE GOVERNANCE

A statement disclosing the extent to which the Company has followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting period is previously contained in this document as item 4.

B. SHAREHOLDING

1. Substantial Shareholders

The following substantial Shareholders were listed on the Company's register as at 15 February 2007:

Shareholder	Number of Shares	Percentage
Bardev Pty Ltd	8,645,281	13.47%
A N Short	8,674,002	13.51%
A J Carew-Reid	3,360,002	05.25%

2. Unquoted Securities

Names of persons holding greater than 20% of a class of unquoted securities:

Holder	Class of Equity Security	Number of Shares
Fay Holdings Pty Ltd	Options 25¢	4,000,000
Anndev Pty Ltd	Options 60¢	3,000,000

3. Number of holders in each class of equity securities and the voting rights attached.

There are 652 holders of ordinary shares. Each Shareholder is entitled to one vote per share held. On a show of hands every Shareholder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

There are 19 holders of unlisted options. There are no voting rights attached to these options.

There are 5 holders of convertible preference shares. There are no voting rights attached to these convertible preference shares.

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ADDITIONAL SHAREHOLDER INFORMATION (Continued)

By Class	Holder s of Options	Number of Options	%
1 – 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	6	200,000	0.01
100,001 and over	13	18,900,000	99.99
Totals	19	19,100,000	100.00

By Class	Holder s of Convertible Notes	Number of Convertible Notes	%
1 – 1,000	5	9	100.00
1,001 - 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and over	-	-	-
Totals	5	9	100.00

5. Marketable parcel

There are 6 Shareholders with less than a marketable parcel as at 15 February 2007.

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ADDITIONAL SHAREHOLDER INFORMATION (Continued)

C. OTHER DETAILS

1. Company Secretary

Lance Camacho.

2. Address and telephone details of the entity's registered and administrative office

The address and telephone details of the registered and administrative office:

Suite 4
16 Ord Street
WEST PERTH Western Australia 6005

Telephone: +(61) 08 9486 1122
Facsimile: +(61) 08 9486 1011

3. Address and telephone details of the office at which a register of securities is kept

The address and telephone number of the office at which a registry of securities is kept:

Advanced Share Registry Services
110 Stirling Highway
NEDLANDS Western Australia 6009

Telephone: +(61) 08 9389 8033
Facsimile: +(61) 08 9389 7871

4. Stock exchange on which the Company's securities are quoted

The Company's listed equity securities are quoted on the Australian Stock Exchange.

5. Restricted Securities

The Company has the following restricted securities in issue at 15 February 2007:

Class of Equity Security	Number	Date Ceasing to be Restricted Securities
Ordinary shares	720,000	10 March 2007
	3,000,000	2 August 2007
	14,049,600	2 June 2008
Options	1,000,000	10 March 2007
	2,850,000	2 August 2007
	10,000,000	2 June 2008
C.P.S	9	2 June 2008

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ADDITIONAL SHAREHOLDER INFORMATION (Continued)

6. Review of operations

A review of operations is included in the Directors' Report.

7. Consistency with business objectives

The company has used its cash and assets in a form readily convertible to cash that it had at the time of listing in a way consistent with its stated business objectives.

8. Lease descriptions

All leases and operations are located in the state of Texas in the USA, as at end February 2007.

Martin County

The Company has working leases over approximately 1,520 gross acres and operates 10 wells in this area. The company maintains a working interest of between 12% and 22.5% in these assets. These wells are operated by Huntington Energy LLC and Endeavour Energy Resources LP.

Palo Pinto County

The Company has working leases over approximately 2,294 gross acres and operates 19 wells in this area. The Company maintains a working interest of between 55% and 90% in these assets. These wells are operated by North American Energy Inc.

Fayette County

The Company has working leases over approximately 238 gross acres. The Company maintains a working interest of 22.5% in these assets.