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Advance Energy Limited
(ACN 111 823 762)

Appendix 4E
Preliminary final report

Financial year ended 31 December 2007

Contents

1. RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Year ended 31 December		Change	Up/Down	Percentage change
	2007 A$'000	**2006 A$'000**			
Revenues from continuing operations	3,630	1,118	2,512	**UP**	224%
Loss from continuing operations after tax attributable to members	(1,789)	(3,508)	1,719	**UP**	49%
Net loss for the period attributable to ordinary shareholders	(1,789)	(3,508)	1,719	**UP**	49%
Net tangible assets	2,986	5,443	2,457	**DOWN**	45%
Net tangible assets per security	0.043	$0.079	$0.036	**DOWN**	45%

No dividends were paid or are proposed for the current or corresponding period.

2. COMMENTARY

Operational Overview

Advance Energy Ltd aims to acquire, develop and trade producing properties to maximize returns on funds invested. The Company pursues 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 intends to rework the assets to reduce operating costs, increase production and optimize profitability. Drilling is being 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 Company was listed in June 2006. This enabled the company to acquire a significant asset base in Texas, USA with which to implement and prove its planned investment philosophy. 2007 was spent implementing the second step of our philosophy, that of value enhancement. Although the company was not able to accomplish all of the prior stated 2007 operational goals due to weather, land negotiations, goods and service provider availability and operator issues, the Company did have a very busy year that focused on the development of current assets through drilling, workovers, and the acquisition of two bolt-on acquisitions in our core Martin County area. The focus for the year was on achieving operational objectives and building a good platform to drive the overall property portfolio valuation rather than short term production.

Acquisitions

The Company made two smaller acquisitions during the year. These projects added significant strategic value to the current asset portfolio.

Key East
During May of 2007, Advance Energy Limited acquired a 12.5% working interest in an additional three wells on the Key East Prospect and the rights to participate in the development drilling of up to nine additional wells for US$900,000. This acreage significantly enhanced the value of the current wells in Motherlode II.

In the 2nd quarter of 2007, as part of the Company's aggressive development plans for the above mentioned acquisition, the Company participated in the drilling of the Thomas 5-1, the first of the above mentioned development wells.

Motherlode III
In the 2nd quarter of 2007, the Company entered into a joint venture agreement to co-develop prospective acreage in Martin and Dawson Counties, Texas. This project, Motherlode Phase III, consists of 75 square miles (48,000 acres) of 3-D seismic data that has been shot and interpreted. The initial interpretation suggested multiple prospects that would target eight prospective deep reservoirs while being able to infill drill the shallow Spraberry Field.

The Company commenced leasing targets in September 2007 and by the end of the year had the first target 100% leased and were in final negotiations on the second and third prospects.

The project development plan for 2008 is to drill and test the first three prospects and continue to lease the next set of prospects. Each time a new discovery is made the Company expects to set up between one to three development wells.

This project will allow Advance Energy Limited to become a major developer of proven reserves in one of the world's most prolific producing basins. Further, by utilizing current technologies, Motherlode Phase III will position the Company to significantly expand its reserve base.

Enhancement activities

Throughout the course of 2007, Advance Energy Limited participated in:
a) the drilling of four new wells;
b) the major workover of nine of its existing wells;
c) the acquisition of three producing wells and
d) the placement of four of its existing wells on artificial lift.

This activity was designed to consolidate an incremental increase in daily production and consolidate proven reserves.

The following table summarises the difference between the 2007 activity and the prior year.

2007 versus 2006 Operational Comparison

	2006	*2007*
Net Gas Production (Mcf)	35,992	284,755
Net Oil Production (Bbls)	2,132	13,615
Net Revenue ($US)	848,863	3,066,406
Wells drilled	3	4
Workovers Performed	4	9
Mechanical enhancements	0	5
Wells Acquired	10	3

At the beginning of 2007 the company carried out an in depth study of its asset portfolio and the resultant planned work over program is reflected below. This does not reflect the acquisition or development of any projects that may be acquired in 2008. A detailed analysis of operations follows.

Project	No. of Producing Wells at end 2007	Net Revenue interest	Achieved 2007 drill	Achieved 2007 workover	Planned 2008 drill	Planned 2008 workover
Motherlode Phase I	6	16%-18%		1	1	1
Motherlode Phase II	9	8%-10%	3	3	4	0
Motherlode Phase III	New lease	50%	-	-	3	3
Palo Pinto – Lone Camp	10	40%-70%	1	2	4	2
Palo Pinto – Possum Kingdom	9	72%	0	3	1	5
Total	**34**		**4**	**9**	**13**	**11**

Martin County

Motherlode Project
Advance Energy Limited'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 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.

To date, there have been 18 wells drilled on prospects generated from this project and 17 have been completed as producers for a success rate of 94%. Advance Energy Limited is participating in three phases of this project as described below.

Phase I - Homestake and RKE Prospects
In May of 2005, the Company acquired a 22.5% average Working Interest (17% average NRI) in five wells producing from the Strawn Limestone.

In 2007, Advance Energy Limited participated in the re-completion of a successfully drilled development well that now produces from the long-life Spraberry Field. A stimulation workover was planned for 2007 but was delayed to 2008 due to the well continuing to free flow. The drilling of a second development well is planned during 2008 in order to assess the performance of the prior mentioned development well.

Phase II-Totem Prospect
In July 2006 Advance Energy Limited began participating for 12.5% in the development drilling of the 640 acre 3-D defined Totem Prospect. During the course of 2007, the Company participated in the successful drilling and completion of the Strain 16-3 and Strain 16-4 wells on this prospect.

Although these wells have a large first year decline, the Company has been able to offset the decline and add net production thru its successful drilling program. Advance Energy Limited expects to participate in the drilling of four more wells on this prospect over the next 18 months.

Phase II-Key East Prospect
In July of 2006 Advance Energy Limited participated in the drilling and successful completion of the Prudie Brown 10-1 well on the Key East prospect. This well first produced in January of 2007.

In May of 2007, Advance Energy Limited acquired a 12.5% working interest in an additional three wells on the Key East Prospect and the rights to participate in the development drilling of up to nine additional wells.

The 2008 development plans for these assets include the drilling of at least two more development wells and a workover in one well to correct a salt water production problem.

Palo Pinto County, Texas

Palo Pinto County - Lone Camp Project
In February of 2006, Advance Energy Limited acquired a 71.5% average Working Interest (53.625% average NRI) in nine producing gas wells, one salt water disposal well and a 90.0% interest in a five mile natural gas transmission line. The 1,280 acre project is located in the eastern portion of Palo Pinto County, Texas approximately 50 miles west of Fort Worth, Texas.

The development plan scheduled for 2008 includes drilling two developmental wells and performing two workovers. The development wells were originally scheduled to be drilled in June of 2007 but were delayed due to poor weather, and a pending Barnett Shale joint venture opportunity.

Palo Pinto County - Possum Kingdom Project
In December 2006 Advance Energy Limited purchased an average working interest of 90% in the nine well, 1,015 acre Possum Kingdom project located in Palo Pinto County.

During the first quarter of 2007, several of the wells on this project began to load up with liquid and had to be put on artificial lift in order to sustain the daily production rates. This procedure took much longer than anticipated due to weather and a delay by the electricity provider in getting service installed. The result of this matter caused the first quarter production to be less than expected form these assets.

In the 3rd quarter of 2007, three major workovers were performed to increase production on these assets and several routine maintenance items were performed in order to stabilize production. Although the workovers produced initial high rates of oil and gas, the production fell off faster than anticipated.

Currently these assets are being reviewed for a secondary development program planned for the 2nd quarter of 2008. This development plan will include the drilling of at least one development well, two behind pipe workovers and three mechanical procedures.

Palo Pinto County - Barnett Shale History and Overview
As a part of the Palo Pinto County acquisitions, Advance has gained rights to the Barnett Shale Field. The Barnett Shale is geological formation with excellent economic possibilities and is estimated to stretch from the city of Dallas west, covering at least 17 counties.

Some experts have suggested the Barnett Shale may be the largest onshore natural gas field in the United States. The United States Geological Service predicts that in excess of 26.8 trillion cubic feet of gas will be produced from this field. Oil has also been found in lesser quantities, but sufficient (with recent high oil prices) to be commercially viable.

Adjacent to the Company's Lone Camp Project, EOG Resources had completed its third horizontal Barnett Shale well. Advance Energy Limited, in conjunction with EOG participated in a seismic shoot across its acreage and was able to view the seismic in the 2nd quarter of 2007. The seismic proved up viable locations in which to drill the Barnett shale on this project. The Company continues to negotiate a farmout agreement with EOG and plan on either co-developing the Barnett with EOG or drilling the wells solo in 2008.

Other Operational Items

Change in Operations Manager
During the last quarter of 2007 the Company successfully negotiated a new Operations Manager Agreement with Hibernia Resources, LLC headquartered in Houston, Texas.

The Company's prior Operations Manager Agreement that was in place with North American Energy expired of its own accord on 31 December 2007.

2.4 Results

Revenue during 2007 reflected the benefit of a successful initial acquisition strategy during 2006, the company's first year as a listed entity. As previously discussed, there were a number of problems and delays which impacted revenue but management are of the opinion that the work done to date has consolidated a solid foundation for future earnings potential. The Directors expect 2008 to revert to normal operating conditions.

During 2007 the average Oil price achieved by the company was US$61.9 and the average gas price was US$ 7.91.

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

	2007	2006
a) An increase in:		
- issued share capital	450	7,072
- value of options issued at various prices	43	1,634
b) An increase in the debt structure as follows		
- Issue of convertible notes	4,575	4,274
- Bank finance	1,144	8,062
c) Acquisition of assets and development costs in Texas, USA net of depletions and depreciation	2,991	14,826

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 relates to the Company's investment in oil and gas properties, up to a maximum of US$20 million. The available limit of the line of credit as at the end of the year was US $7,400,000, of which the Company had drawn down an amount of US$6,140,000. The available limit will be amended as and when the Company increases its portfolio through acquisition or value add.

2.5 Prospects

Although the operations have had to overcome some practical issues during the year the company is on track to demonstrate the roll out of its stated investment philosophy. In the face of adversity, 2007 has seen the achievement of a number of operational milestones. The final step is for the company to dispose of the appropriate assets and realise the value created. Initial evaluations and discussions have already been entered into with relevant parties. The most likely candidates for divestiture at this stage would be some of the Huntington assets in Motherlode Phase I and the Lone Camp project in Palo Pinto. These initial discussions have indicated that the model would be adequately demonstrated in respect of both of these assets, resulting in significant profits on disposal. In addition to the sale of these assets negotiations are ongoing regarding the Barnett shale opportunities in Palo Pinto county.

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 company will continue to focus on acquiring, adding value and disposal of the appropriate assets.

2.6 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.

3. CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

		Group	
	Note	**2007 $'000**	**2006 $'000**
Revenue from continuing operations	5	3,630	1,118
Cost of Oil & Gas sold		(735)	(297)
Gross profit		2,895	821
Other revenue		266	55
Depreciation	6,11	(319)	(106)
Depletion of oil and gas properties	6,12	(793)	(156)
Foreign exchange gains/(losses)	6,11	(292)	(23)
Staff costs	6	(629)	(1,369)
Administrative expenses	6	(1,641)	(1,674)
Operating result before interest and tax		(513)	(2,452)
Net finance costs		(1,210)	(1,119)
Finance charges earned		56	99
Finance costs	6	(1,266)	(1,218)
Loss before tax		(1,723)	(3,571)
Income tax benefit/(expense)	7	(66)	63
Net loss for the year attributable to the ordinary shareholders of the Company		(1,789)	(3,508)
Earnings per share			
Basic (cents per share)	20	(2.61)	(6.59)

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

4. CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	Group 2007 $'000	Group 2006 $'000
Current Assets			
Cash and cash equivalents	8	1,936	1,727
Receivables	9	740	465
Total current assets		2,676	2,192
Non current Assets			
Property, plant and equipment	11	1,327	1,427
Oil and gas properties	12	14,484	14,269
Deferred tax assets	22	-	110
Exploration and evaluation costs	13	-	292
Total non current assets	10	15,811	16,098
Total Assets		18,487	18,290
Current Liabilities			
Payables	14	418	382
Provisions	15	28	44
Interest bearing liabilities	16	5,800	-
Total current liabilities		6,246	426
Non current liabilities			
Deferred tax liability	23	37	85
Interest bearing liabilities	16	9,218	12,336
Total non current liabilities		9,255	12,421
Total Liabilities		15,501	12,847
Net Assets		2,986	5,443
Equity			
Issued share capital	17	9,029	8,764
Reserves	18	581	1,514
Accumulated losses	19	(6,624)	(4,835)
Total Equity		2,986	5,443

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

5. CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

		Group	
	Note	2007 $'000	2006 $'000
Cash flows from operating activities			
Receipts from customers		3,267	896
Payments to suppliers and staff		(2,711)	(2,446)
Interest received		56	99
Interest and borrowing costs		(1,259)	(269)
Other income		115	20
Net cash (used in) operating activities	21	(532)	(1,700)
Cash flows from investing activities			
Purchase of oil and gas properties		(2,643)	(13,795)
Purchase of plant and equipment		(348)	(1,511)
Payment for bonds		-	-
Exploration expenditure		-	-
Net cash (used in) investing activities		(2,991)	(15,306)
Cash flows from financing activities			
Proceeds from issues of shares		400	7,162
Financing costs		(135)	(485)
Proceeds from borrowings		5,285	13,612
Repayments of borrowings		(1,818)	(2,665)
Net cash flows provided by financing activities		3,732	17,624
Net increase in cash held		209	618
Cash and cash equivalents at the beginning of the financial period		1,727	1,109
Cash and cash equivalents at the end of the financial period		1,936	1,727

The statement of Cash Flows should be read in conjunction with the accompanying notes to the financial statements.

6. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007 **$'000**	Issued Capital	Equity Reserve	Option Reserve	Foreign Currency Translated Reserve	Accumulated losses	TOTAL
Balance at beginning of period	8,764	150	1,778	(414)	(4,835)	5,443
Issues of share capital	265	-	44	-	-	309
Cost of share based payments	-	-	-	-	-	-
Value of conversion rights – convertible note	-	-	-	-	-	-
Currency translation difference	-	-	-	(977)	-	(977)
Loss for period	-	-	-	-	(1,789)	(1,789)
	9,029	150	1,821	(1,391)	(6,624)	2,986

Year ended 31 December 2006 **$'000**	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, net of capital raising costs	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

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

7. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 Advance Energy Ltd 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 pronouncement to the annual reporting period beginning 1 January 2006.

- revised AASB 101 Presentation of financial statements (issued October 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 interpretation.

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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

(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 2007 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.

Jointly controlled assets and operations
The majority of operations are carried out subject to joint venture arrangements. The proportionate interests in the assets, liabilities, income and expenditure of a joint venture activity have been incorporated in the financial statements under the appropriate headings.

(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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

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.

(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 approximately 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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

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.

(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 for 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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

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.

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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

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.

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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

(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 follows, 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

(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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

(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.

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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

(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
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

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.

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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

(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.

(z) **New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2007 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 101, 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 liked to various indices relevant to its area of operations. As with most commodities, this fluctuates both in line with seasonal demand and overall market conditions. In addition, the company's credit facilities are calculated utilising an appropriate market price within the valuation model. Any severe deterioration in the price applied could result in restrictions on the borrowing base (refer note 16).

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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

(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.

In addition, the Company has relied on the availability of convertible note instruments. These notes are repayable after 18 months.

(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.

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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

(iii)Fair Value of Securities
- Options
The total estimated value of options expenses during the period was $43,275 (2006: $1.634 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.

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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

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.

2007 **Geographical segment**	**USA** **$'000**	**Australia** **$'000**	**Eliminations** **$'000**	**Consolidated** **$'000**
Revenues from continuing operations	3,630	-	-	3,630
Segment result (loss)	(21)	(2,545)	777	(1,789)
Segment assets	16,839	11,615	(9,967)	18,487
Segment liabilities	16,819	8,406	(9,724)	15,501
Acquisition of plant & equipment, exploration & evaluation and other non-current assets	2,858	133	-	2,991
Depreciation and amortisation	1,053	59	-	1,112

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

5. REVENUE FROM CONTINUING OPERATIONS

	GROUP	
	2007 **$'000**	2006 **$'000**
Oil and gas sales	3,630	1,118

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

6. EXPENSES

	GROUP	
	2007 $'000	2006 **$'000**
Loss from continuing operations before income tax has been determined after		
(a) Depreciation and depletion		
Depreciation of plant and equipment	319	106
Depletion of oil and gas properties	793	156
Total depreciation and depletion	1,112	262
(b) Lease payments		
Minimum lease payments		
- operating lease	45	61
(c) Employee benefit expense		
Directors expense	406	313
Expense of share base payments	-	694
(d) Finance costs		
Interest on borrowings	1,238	293
Borrowing costs	26	925
Total Finance costs	1,264	1,218
(e) Exploration costs written off	292	-

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

7. INCOME TAX

	GROUP	
	2007 $'000	2006 **$'000**
a) Income tax (benefit)/expense		
Current income tax charge	-	-
Deferred income tax relating to origination of temporary differences	66	(63)
Income tax (benefit)/expense reported in the Income Statement	66	(63)
b) Deferred income tax (benefit)/expense		
Decrease/(increase) in deferred tax asset	23	(106)
(Decrease)/increase in deferred tax liability	70	43
	93	(63)
c) Amounts recognised directly in equity		
Net deferred tax debited directly to equity	-	-
d) Numerical reconciliation of income tax expense to prima facie tax payable		
Accounting loss before tax	(1,723)	(3,571)
At statutory income tax rate of 30%	(517)	(1,072)
Expenditure not allowable for tax purposes	18	492
Unrecognised tax losses	492	536
Other	73	(19)
Income tax (benefit)/expense	66	(63)
e) Unrecognised timing differences and tax losses:		
Parent tax loss for the year	565	423
Australian timing differences:		
Capital raising expenses	(38)	6
Depreciable assets	4	4
Accrued expenses	15	35
Borrowing costs	(43)	63
Unrealised forex losses	-	-
Accrued interest	-	8
Non-deductible employee entitlements	3	4
Superannuation	(2)	1
Deductible employee entitlements	(4)	(4)
Deductible prior year payments	(3)	-
Accrued expenses opening balance	(5)	(6)
Total unrecognised	492	534

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

The franking balance as at the end of the year was nil (2006: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 $2,428,351 (2006: $1,863,347) 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	
	2007 **$'000**	2006 **$'000**
Cash at bank	1,936	1,727

9. TRADE AND OTHER RECEIVABLES

	GROUP	
	2007 **$'000**	2006 **$'000**
Current		
Trade receivables	282	414
Other receivables	458	51
	740	465

10. EXPLORATION & EVALUATION COSTS

	GROUP	
	2007 **$'000**	2006 **$'000**
Non-Current		
Exploration, evaluation and development costs carried forward in respect of areas of interest in exploration and evaluation phases	-	292
Reconciled as follows:		
Opening balance	292	292
Exploration assets written off during the period	(292)	-
Closing Balance	-	292

The ultimate recoupment of these costs is dependent on successful development and commercial exploitation, or alternatively, the sale of the respective areas.
As at year end, management did not consider the Schulenberg prospect saleable and further production from the project was unlikely. All costs held on the balance sheet in relation to the project were written off.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

11. PROPERTY, PLANT AND EQUIPMENT

	GROUP	
	2007 $'000	2006 **$'000**
Plant and equipment – cost	1,739	1,541
Less accumulated depreciation	(412)	(114)
	1,327	1,427
Movements in carrying amounts are reconciled as follows:		
Balance at the beginning of period	1,427	82
Additions	348	1,511
Disposals	-	-
Depreciation expense	(319)	(106)
Foreign exchange difference	(129)	(60)
	1,327	1,427

12. OIL AND GAS PROPERTIES

	GROUP	
	2007 $'000	2006 **$'000**
Oil and gas properties – cost	15,460	14,517
Less accumulated depletion	(976)	(248)
	14,484	14,269
Movements in carrying amounts are reconciled as follows:		
Opening balance	14,269	788
Acquired during period	2,643	13,795
Depletion charge	(793)	(156)
Foreign exchange difference	(1,635)	(158)
	14,484	14,269

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

13. OTHER FINANCIAL ASSETS

	GROUP	
	2007 $'000	2006 **$'000**
Non-Current		
Shares in subsidiaries (Note 22)	-	-
Loans to subsidiaries	-	-
	-	-

14. TRADE AND OTHER PAYABLES

	GROUP	
	2007 $'000	2006 **$'000**
Trade creditors	368	24
Accruals	50	358
	418	382

15. PROVISIONS

	GROUP	
	2007 $'000	2006 **$'000**
Employee benefits	28	44
Number of employees at year end	4	2

16. INTEREST BEARING LOANS AND BORROWINGS

	GROUP	
	2007 $'000	2006 **$'000**
Current		
Convertible Notes – unsecured[1]	5,800	-
Comprising:		
Face value of the note	5,725	-
Interest accrued on all notes	75	-
	5,800	-

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

16. INTEREST BEARING LOANS AND BORROWINGS (Cont.)

	GROUP	
	2007 $'000	2006 **$'000**
Non-current		
Convertible Notes – unsecured[1]		
Face value of the note	2,300	4,250
Interest accrued	-	24
	2,300	4,274
Bank loan – secured[2]	6,918	8,062
	9,218	12,336

1) During the year the Company issued new convertible notes with a face value totalling $4,575,000, bringing the total face value of convertible notes in issue to $8,025,000. In aggregate these may be converted into a maximum of 10,416,667 shares at the option of the holder before the repayment dates, at prices ranging between $0.50 and $1.00. The terms of the notes are eighteen (18) months with a coupon rate of 11% per annum. $6,300,000 of these notes may be converted into a fixed 7,300,000 shares. Of the balance $725,000 may be converted at the higher of 50 cents or 80% of the market value prevalent at the time of conversion, and $1,000,000 may be converted at the higher of 60 cents or 80% of the market value prevalent at the time of conversion.

2) The Company has entered into a revolving line of credit with the Sterling Bank in the U.S. Generally, the borrowing base of the line of credit as determined by the bank relates to 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. As at the end of the financial period the available credit was US$7.4 million of which US$6.14 million has been drawn.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

17. ISSUED CAPITAL

17.1 Ordinary shares

	GROUP	
	2007 $'000	2006 **$'000**
69,299,099 fully paid ordinary shares (2006: 68,199,099)	9,029	8,764
Movements in shares on issue		
Beginning of period	9,961	1,988
Shares issued during the period		
Convertible note conversion 100,000 @ $0.50	50	-
1,000,000 shares issued @ $0.35	350	--
1,728,000 shares issued @ $0.10¢	-	173
333,333 @ $0.15¢	-	50
27,000,000 @ $0.25¢	-	6,750
Converting 5 Preference Shares into 5,000,000 ordinary shares	-	750
1,000,000 Options exercised @ $0.25¢	0	250
	10,361	9,961
Less capital raising costs	(1,332)	(1,197)
End of period	9,029	8,764

(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:

2007

Expiry Date	**Exercise Price**	**Number at beginning of period**	**Issued**	**Exercised**	**Number at end of period**
31 December 2010	$0.25	13,850,000	-	-	13,850,000
15 December 2009	$0.60	5,000,000	-	-	5,000,000
29 December 2009	$0.65	250,000	-	-	250,000
31 December 2010	$0.40	-	250,000		250,000
		19,100,000	250,000	-	19,350,000

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

17.2 Options (Cont.)

2006

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

No options have expired or have been cancelled since incorporation.

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:

2007

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

2006

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

Each Converting Preference Share (CPS) converts 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 BOEPD
CPS-C – upon the Company achieving production of 1000 BOEPD
CPS-D – upon the Company achieving production of 1500 BOEPD

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

18. RESERVES

	GROUP	
	2007 $'000	2006 **$'000**
Option reserve [(1)]	1,822	1,778
Foreign currency translation reserve [(2)]	(1,391)	(414)
Equity reserve [(3)]	150	150
	581	**1,514**
[(1)] Option reserve		
Opening balance	1,778	144
Issue of options during period	44	1,634
	1,822	1,778
[(2)] Foreign currency translation		
Opening balance	(414)	(46)
Currency translation differences arising during the year	(977)	(368)
	(1,391)	(414)
[(3)] Equity reserve		
Opening balance	150	418
Issue of CPS	-	601
Conversion into ordinary shares	-	(750)
Value of conversion right convertible note	-	(119)
Deferred tax component	-	-
	150	150

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 for consulting fees during the period is 17.3 cents per option (2006: between $0.0128 and $0.0233 per option). The fair value at grant date is 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 of 70%
(c) expected dividend yield: 0%
(d) risk-free interest rate of 7.5%

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

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.

The total value of the CPS at date of issue was assessed at $1,258,100. The total value is being amortised to the income statement in line with attainment of targets such as production. At the end of the year $1,107,100 (2006: $936,720) in aggregate had been reflected through the income statement.

19. ACCUMULATED LOSSES

	GROUP	
	2007 $'000	2006 **$'000**
Accumulated losses at the beginning of the year	(4,835)	(1,327)
Net loss attributable to the members of the parent entity	(1,789)	(3,508)
Accumulated losses at the end of the financial year	(6,624)	(4,835)

20. EARNINGS PER SHARE

	GROUP	
	2007 $'000	2006 **$'000**
Reconciliation of earnings to net loss		
Net loss	(1,788)	(3,508)
Earnings/(loss) used in the calculation of basic and dilutive EPS	(1,788)	(3,508)
	Number	Number
Weighted average number of ordinary shares outstanding during the period used in calculation of basic and dilutive EPS	68,506,496	53,207,976

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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

21. CASH FLOW INFORMATION

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

	GROUP	
	2007 $'000	2006 **$'000**
Loss from ordinary activities after income tax	(1,789)	(3,508)
Non cash flows in loss from continuing operations		
Depreciation	319	106
Depletion	793	156
Exploration assets written off	292	-
Increase/(decrease) in provisions	(16)	32
Option cost expensed	43	-
CPS costs amortised	-	517
Equities issued in lieu of payment	-	1,248
Interest income not received	-	-
Income not received	-	(287)
Interest accrued not paid	-	24
Foreign exchange difference	3	(109)
Changes in assets and liabilities		
Increase/(decrease) in trade creditors and accruals	36	154
(Increase)/decrease in trade and other receivables	(275)	29
(Increase)/decrease in deferred tax assets	110	(99)
Increase/(decrease) in deferred tax liabilities	(48)	37
Cash flows from (used in) operations	(532)	(1,700)

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

22. DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:

	GROUP	
	2007 $'000	2006 **$'000**
Organisation costs	-	2
Book depletion	-	2
Net operating loss	-	106
Net deferred tax asset	-	110
Movements:		
Opening balance	110	11
Amount brought to account	(110)	105
Foreign exchange difference	-	(6)
Closing balance	-	110

23. DEFERRED TAX LIABILITIES

The balance comprises temporary differences attributable to:

	GROUP	
	2007 $'000	2006 **$'000**
Intangible drilling costs	37	85
Movements:		
Opening balance	85	48
Amount brought to account	(48)	43
Foreign exchange difference	-	(6)
Closing balance	37	85

24. SUBSIDIARIES

The Company has the following Subsidiaries at all times during the year.

Name of Subsidiary	Place of Incorporation	Percentage held 2007	Percentage held 2006
Advance Exploration and Production, Inc	Texas USA	100%	100%
AEPI Midstream, Inc	Texas USA	100%	100%

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

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 December 2007

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).

There were no movements in subsidiaries during the current year.

25. REMUNERATION OF AUDITORS

	GROUP	
	2007 **$**	2006 **$**
Amounts received or due and receivable by BDO Kendalls Audit and Assurance (WA) Pty Ltd (formerly Horwath (WA) Pty Ltd) for:		
Audit and audit review services of the financial reports	53,000	30,000
Other services – Taxation	45,220	7,400
– Other	2,735	-
	100,955	37,400
Amounts received or due and receivable by FCP CPA in relation to the US based subsidiary companies for:		
Audit and audit review services of the financial reports	39,4550	33,847
Other services – Taxation	7,813	5,017
– Other	-	-
	47,268	38,864
	148,223	**76,264**

On 1 April 2007 BDO Kendalls acquired Horwath (WA) Pty Ltd.

The Company now has a substituted accounting period of 31 December for the purpose of lodging income tax returns with the Australian Taxation Office.

26. 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.

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2007

(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:

2007	Weighted Average Effective Interest Rate	**Floating Interest Rate $'000**	**Fixed Interest Rate Maturing Within Period $'000**	**Non-Interest Bearing $'000**	**TOTAL $'000**
Financial Assets					
Cash	8%	1,936	-	-	1,936
Receivables	-	-	-	740	740
Total Financial Assets	-	1,936	-	740	2,676
Financial Liabilities					
Trade Creditors and accruals	-	-	-	168	168
Convertible Note	11%	-	8,100	-	8,100
Interest bearing borrowings	9.5%	6,918	-	-	6,918
Total Financial Liabilities	-	6,918	8,100	168	15,186

2006	Weighted Average Effective Interest Rate	**Floating Interest Rate $'000**	**Fixed Interest Rate Maturing Within Period $'000**	**Non-Interest Bearing $'000**	**TOTAL $'000**
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

ADVANCE ENERGY LTD
ACN 111 823 762

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2007

(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.

27. COMMITMENTS

	GROUP	
	2007 $'000	2006 **$'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	10
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		
Between 1 and 5 years	-	155
Longer than 5 years	-	-

28. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Up to the date of this report, there have been no materially significant events.

29. CONTINGENCIES

There were no known contingencies at year end.

8. COMPLIANCE STATEMENT

8.1 This report is based on accounts which are currently subject to audit.

_____________________________ Date: 29 February 2008

Lance Camacho
Company Secretary