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ADVANCE ENERGY LIMITED

ACN 111 823 762

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2008

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CORPORATE DIRECTORY

Directors:

Chairman	Alex Bajada
Managing Director	Anthony Short
Non Executive Director	Gordon Sklenka

Company Secretary	David Ballantyne
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Registered & Principal Office	16 Ord Street WEST PERTH WA 6005 Telephone: + 618 9486 1122 Facsimile: + 618 9486 1011
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Postal Address	P.O. Box 1779 WEST PERTH WA 6872
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Auditors	BDO Kendalls Audit & Assurance (WA) Pty Ltd 128 Hay Street SUBIACO WA 6008
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Solicitors - Perth	Hardy Bowen 28 Ord Street WEST PERTH WA 6005
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Website Address	www.advanceenergyltd.com.au
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Stock Exchange Listings	Advance Energy Ltd shares are listed on the Australian Stock Exchange under the code AVD
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Share Registry	Advanced Share Registry Services 150 Stirling Hwy Nedlands WA 6009
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CHAIRMAN'S LETTER

Dear Shareholder

Your Company has, in a volatile and difficult operating environment, enjoyed a year of very significant achievement.

I draw your attention to the financial summary on the attached page, from which you will note that there was 39% increase in revenues, a 423% increase in EBITDA (earnings before interest, tax, depreciation/depletion and amortisation), a 224% increase in net tangible assets, and a 402% increase in operational cash inflows.

During the year your Company made strategic acquisitions amounting to US\$4.5 million to increase its interests in the Motherlode 1, Possum Kingdom and Lone Camp producing assets. It also disposed of its Lone Camp asset in December 2008 for US\$2 million, which represented an IRR in excess of 58% and a return on investment of 112%, over a 35 month period.

It partially funded its acquisitions of US\$ 4.5 million from operating revenues and partially from debt finance in the US and Australia. A non renounceable rights issue was successfully completed in September 2008 raising \$3.9 million before costs, ensuring that the A\$ debt was reduced by a net amount of \$100,000 during the year, while the Lone Camp sale also ensured that its US\$ bank debt was reduced by a net US\$740,000 over the 2008 year.

During the year the Company entered into a number of oil and gas hedge contracts, the benefits of which have been considerable. At 31 December 2008 your Company had a Mark to Market position of greater than US\$900,000, and one of its oil hedges goes through to May 2010 covering 1,000 barrels of oil per month at a minimum price of US\$95 per barrel.

All of the above gives us considerable optimism for the future. In particular your Company considers itself well placed to take advantage of both corporate and project opportunities that are likely to present themselves in the next 6-9 months, before the anticipated improvement in the oil and gas sector towards the end of this calendar year or early into 2010.

I would like to thank those who have contributed to the Company's achievements this year, especially my fellow directors, staff and our highly capable partners in North America. In particular I would also like to thank you, our shareholders, for your continued support.

A handwritten signature in black ink, appearing to read 'Alex Bajada', with a long horizontal line extending to the right.

Alex Bajada
Chairman
31st March 2009

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Change	Up/Down	Percentage change
	2008 <u>A\$'000</u>	2007 <u>A\$'000</u>			
Revenues from continuing operations	5,071	3,630	1,441	Up	39.7%
EBITDA	3,428	655	2,773	Up	423.4%
Net loss for the period attributable to ordinary shareholders	(835)	(1,789)	954	Down	53.3%
Cash inflows/(outflows) from operations	1,609	(532)	2,141	Up	402.4%
Net tangible assets	9,677	2,986	6,691	Up	224.1%

REVIEW OF OPERATIONS

1. Corporate overview and strategy

Operational Overview

Your attention is drawn to the Financial Highlights, immediately preceding this Review of Operations. In the year ended 31 December 2008 the group posted EBITDA of \$3.428m (2007: \$0.655m), revenues of \$5.071m (2007: \$3.63m) and a net loss attributable to ordinary shareholders of \$0.835m (2007: 1.789m). Combined with positive operational cash flows of \$1.609m (2007: outflows of \$0.532m) and an increase in net tangible assets to \$9.677m (2007: \$2.986m) your Board of Directors is very pleased with the performance, especially in the light of volatile commodity and currency markets, and the considerable level of hardship being experienced in the wider business community.

Divestments

During the year the Group sold its Lone Camp project for US\$2 million, representing a profit in the order of US\$570,000. After taking account of operational net cash inflows from the project since acquisition of more than US\$900,000, this represents an IRR in excess of 58% and a return on investment of 112% over a 35 month period, an outstanding result in the current financial climate and a validation of the original business model.

Acquisitions

The Group made one major acquisition and one smaller consolidating acquisition during the year. These projects enhanced the existing asset base and production, enabled it to assume operatorship and contributed towards the marketability of the Lone Camp asset before divestment.

In April 2008, Advance increased its working interest in the Mother Lode 1 project from 22.5% to 90%. In August 2008, Advance made a number of minor acquisitions from North America Energy Inc including an additional 2.5% working interest on Mother Lode 1 and the remaining 10% working interests of the Lone Camp and Possum Kingdom projects bringing ownership of these two projects up to 100%.

Enhancement Activities

Throughout the course of 2008, Advance Energy Ltd participated in:

- a) The drilling of 3 new wells; and
- b) The major workover of 8 of its existing wells.

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

The following table summarises the major operational and production factors in play in the 2008 and 2007 years.

2008 versus 2007 Operational Comparison

	2007	2008
Net Gas Production	284,755 Mcf	213,311 Mcf
Net Oil Production	13,615 Bbls	21,230 Bbls
Revenue	US\$3,066,406	US\$4,373,835
Wells Drilled	4	3
Workovers Performed	9	8
Acquisitions	\$1,400,000	\$4,480,000
Sales	-	\$2,000,000

REVIEW OF OPERATIONS (Cont)

Rights Issue

The Group completed a 5 for 7 non-renounceable rights issue at 8 cents per share to raise \$3.9 million before costs. The issue was fully underwritten, and was also sub-underwritten by several parties including director related companies. The underwriter is currently pursuing an amount of \$260,000 from a non associated overseas sub-underwriter. The Group now has issued capital of 118,798,222 fully paid ordinary shares.

Loan and Debt Facilities

In the US the debt facility with Sterling Bank of Texas was renegotiated in March 2008 with interest now payable at US Prime (currently 3.25%) plus 1.0%. Advance is therefore currently paying interest at the rate of 4.25% per annum on the outstanding balance (or less than US\$20,000 per month based on its current balance of US\$5.4m). This balance has reduced by a net US\$740,000 during the year.

Advance has also reduced the balance of its Australian dollar denominated debt by slightly over \$100,000. The mix changed with the reduction of issued convertible notes by around \$3.7m, largely as a result of the rights issue; and the addition of loan funds, largely secured, of \$3.6m to assist with the strategic acquisition of assets in the US, referred to above.

The group's overall debt therefore reduced, while at the same time making net acquisitions of US\$2.5 million and participating in the drilling of 3 wells and 8 workovers.

Risk Management Activities

In 2008, Advance Energy entered the following risk management (hedging) activities achieved through costless collar contracts with MF Global Ltd:

- 1,000 barrels per month for 12 months from March 2008 at a floor price of US\$90.00 per barrel and a ceiling price of US\$100.75 per barrel;
- 1,000 barrels per month for 24 months from May 2008 at a floor price of US\$95.00 per barrel and a ceiling price of US\$105.00 per barrel. An additional call option at US\$120 per barrel caps the hedging exposure at US\$15 per barrel and provides the company with upside above this price; and
- 15,000 million British Thermal Units (MMBTU) per month hedged for 12 months from February 2008 at a floor price of US\$7.75 per MMBTU and a ceiling price of US\$10.50 per MMBTU.

In September 2008, in anticipation of the sale of the Lone Camp project, the company closed 10,000 MMBTU of its gas hedging commitment leaving it with a monthly hedged volume of 5,000 MMBTU.

As at 31 December 2008, Advance Energy's mark to market gain on these contracts was in excess of US\$900,000, demonstrating once again the benefits of a sound hedging position in volatile commodity markets.

Likely Developments

The Group will actively seek to take advantage of the corporate and project opportunities that are currently presenting themselves and will continue to do so for much of calendar 2009. Its strategic focus will predominantly be the Permian Basin in Texas with its long life, slow depletion wells, extensive operational history, high success rate in drilling and workover programmes, and ready access to technical and marketing infrastructure.

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 Eight 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

(<http://www.asx.com.au/supervision/governance/index.htm>).

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:

The table below summarises the Company's compliance with the Corporate Governance Council's Recommendations:

Principle	ASX Corporate Governance Council Recommendations	Comply
1	Lay solid foundations for management and oversight	
1.1	Establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes
1.2	Disclose the process for evaluating the performance of senior executives.	Yes
1.3	Provide the information indicated in the Guide to reporting on principle 1.	Yes
2	Structure the Board to add value	
2.1	A majority of the board should be independent directors.	No
2.2	The chair should be an independent director.	No
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Yes
2.4	The board should establish a nomination committee.	No
2.5	Disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes
2.6	Provide the information indicated in the Guide to reporting on principle 2.	Yes
3	Promote ethical and responsible decision-making	
3.1	Establish a code of conduct and disclose the code or a summary as to:	Yes
	• the practices necessary to maintain confidence in the company's integrity;	
	• the practices necessary to take into account the company's legal obligations and the reasonable expectations of its stakeholders; and	
	• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	
3.2	Establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary.	Yes
3.3	Provide the information indicated in the Guide to reporting on principle 3.	Yes
Principle	ASX Corporate Governance Council Recommendations	Comply

4	Safeguard integrity in financial reporting	
4.1	The board should establish an audit committee.	No
4.2	The audit committee should be structured so that it:	No
	• consists only of non-executive directors;	
	• consists of a majority of independent directors;	
	• is chaired by an independent chair, who is not chair of the board; and	
	• has at least three members.	
4.3	The audit committee should have a formal charter	Yes
4.4	Provide the information indicated in the Guide to reporting on principle 4.	Yes
5	Make timely and balanced disclosure	
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes
5.2	Provide the information indicated in the Guide to reporting on principle 5.	Yes
6	Respect the rights of shareholders	
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy.	Yes
6.2	Provide the information indicated in the Guide to reporting on principle 6.	Yes
7	Recognise and manage risk	
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes
7.3	The board should disclose whether it had received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes
7.4	Provide the information indicated in the Guide to reporting on principle 7.	Yes
8	Remunerate fairly and responsibly	
8.1	The board should establish a remuneration committee.	No
8.2	Clearly distinguish the structure on non-executive directors' remuneration from that of executive directors and senior executives.	Yes
8.3	Provide the information indicated in the Guide to reporting on principle 8.	Yes

CORPORATE GOVERNANCE (Cont)

Council Principle 1:

Lay solid foundations for management and oversight

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:

- 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 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. Between regular meetings it will also ensure that important matters are addressed by way of circular resolutions.

The Board may, from time to time, delegate some of the 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; or
- if accumulated they would trigger the quantitative tests.

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.

CORPORATE GOVERNANCE (Cont)

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.

Council Principle 2

Structure the board to add value

The Company presently has one executive director, one non-executive director and one non-executive Chairman (Mr Alex Bajada), who is not independent in terms of the ASX Corporate Governance Council's definition of an independent director, because of his relevant interest in the Company's securities. 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. Therefore no director is independent in accordance with Council Principle 2. 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 director possesses 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.

The Company has not established a nomination committee, believing that the Company is not currently of a size to justify its formation.

Council Principle 3:

Promote ethical and responsible decision-making.

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.

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.

CORPORATE GOVERNANCE (Cont)

Council Principle 4:

Safeguard integrity in financial reporting.

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.

The Company has not established an audit committee believing that the Company is not of a size, nor are its financial affairs of such complexity to warrant its establishment. The Board as a whole fulfils the role of an audit committee by:

- Monitoring the integrity of the financial statements of the Company, and reviewing significant financial reporting judgments.
- Reviewing the Company's internal financial control system and risk management systems.
- Reviewing the appointment of the external auditor and approving the remuneration and terms of engagement.
- Monitoring and reviewing the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements.

Council Principle 5:

Make timely and balanced disclosure

Compliance procedures for ASX Listing Rule disclosure requirements have been adopted by the Company. It has appointed an officer of the Company to be responsible for compliance.

Council Principle 6:

Respect the rights of shareholders

Information will be 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 annual report is made available on the Company's website, and is provided in hard copy format to any shareholder who requests it.
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Act and is lodged with the Australian Securities Exchange. The half-yearly report is made available on the Company's website, and 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 made available on the Company's website, and 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 general meeting of shareholders.
- The Company's website is well promoted to shareholders and shareholders may register to receive updates, either by email or in hard copy.

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 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.

CORPORATE GOVERNANCE (Cont)

Company's website

The Company maintains a website at www.advanceenergy ltd.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.

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

The Company also ensures that the audit director attends the Annual General Meeting.

Council Principle 7:

Recognise and manage risk

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.

Council Principle 8:

Remunerate fairly and responsibly

The Board believes the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for Directors and executives of the Company and considers it more appropriate to set time aside at board meetings to specifically address matters that would ordinarily fall to the remuneration committee.

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (Group) for the year ended 31 December 2008.

Directors

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

A. Bajada
A. Short
G. Sklenka

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 2008 after income tax amounted to \$835 million (2007: loss \$1.789 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 Group's activities is contained in the Operations Review section of the Annual Report.

Significant changes in the state of affairs

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

	2008	2007
a) An increase in:		
- Issued share capital	3,664	265
- Value of options issued at various prices	-	44
b) An increase/(decrease) in the debt structure as follows		
- Convertible notes	(3,773)	4,575
- Loans	3,658	-
- Bank finance	816	(1,144)
c) Acquisition of assets and development costs in Texas, USA net of depletions and depreciation	8,624	115
d) An increase in Mark to Market position as follows		
- Derivative asset	1,310	-
- Mark to Market calls	1,213	-
- Derivative gain	943	-
e) Profit on sale of oil and gas properties	813	-

DIRECTORS' REPORT (Cont)

Since 2006 the Company has had a revolving line of credit with 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 current maximum of US\$40 million. As at the end of the year the Company had drawn down an amount of US\$5.4 million. This represents a net reduction in the year of US\$740,000. The vagaries of volatile FX movements in the year result in the increase shown in A\$ terms. The available bank borrowing limit is amended as and when the Company increases its portfolio through acquisition or value added activities.

Matters subsequent to the end of the financial year

In February the Company's gas hedge for 5,000 MMBtu per month of natural gas at a minimum price of US\$7.75 expired, and in March one of the oil hedges (1,000 Bbls per month at a minimum of US\$90 Bbl) also expired. There were no settlement amounts paid or received on expiry of these hedges. Any settlement amounts were paid on a monthly basis during the hedge term. The expired hedges accounted for approximately 20% of the derivative revenue. There remains one further oil hedge (1,000 Bbls per month at a minimum of US\$95 Bbl) which expires in May 2010. For further information in relation to the hedges please review to the Review of Operations section in this Annual Report.

There were no other material events arising subsequent to 31 December 2008 to the date of this report, which significantly affected, 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

The Company will actively seek to take advantage of the corporate and project opportunities that are currently presenting themselves and will continue to do so for much of calendar 2009. Its strategic focus will predominantly be the Permian Basin in Texas with its long life, slow depletion wells, extensive operational history, high success rate in drilling and workover programmes, and ready access to technical and marketing infrastructure.

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) – Non Executive 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, Chairman of Odin Energy 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 17 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.

DIRECTORS' REPORT (Cont)

Other Current directorships

Regal Resources Ltd, Palace Resources Limited, Kilgore Oil and Gas Limited and Vector Resources Limited.

Other directorships within the last three years

Odin Energy Limited

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 16 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, Kilgore Oil and Gas Limited and Vector Resources Limited.

Other directorships within the last three years

None

David Ballantyne - Company Secretary MA (Hons) University of Edinburgh, ACA

Mr. Ballantyne is a Chartered Accountant with commercial experience in the exploration / mining, biotechnology and aquaculture sectors. He has previously worked for a former Big 4 accounting firm and second tier accounting firms in the areas of audit, corporate services and insolvency. Mr Ballantyne has also had extensive experience in the corporate management, and director/ company secretary roles of small mineral exploration and production companies and has completed listings on AIM and the ASX. He is currently Company Secretary of Kilgore Oil and Gas Limited, Red Sky Energy Limited and Odin Energy Limited.

Meetings of Directors

The number of meetings held by the company's board of directors during the year ended 31 December 2008 and the number of meeting attended by each director were:

	Board meetings held	Board meetings attended
A. Bajada	21	21
A. Short	21	21
G. Sklenka	21	21

DIRECTORS' REPORT (Cont)

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	3,020,001	2,157,143	-		5,177,144
Anthony Short					
- Indirect	8,674,002	7,784,597	-	-	16,458,599
Gordon Sklenka					
- Indirect	3,000,000	3,805,357	-	-	6,805,357

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	1	-	-	-	1
Anthony Short					
- Indirect	3	-	-	-	3
Gordon Sklenka					
- Indirect	1	-	-	-	1

Details of the conditions relating to conversion of the Converting Preference Shares are included in note 19.3.

DIRECTORS' REPORT (Cont)

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
- B. Service Agreements
- C. Details of Remuneration
- D. Share-based Compensation
- E. Additional Information

There is not a separately constituted Remuneration committee. The Board, as a whole, discharges responsibilities in relation to remuneration of the Company's executives including any share and benefit plans, and aims to establish appropriate remuneration levels and incentive policies for all executives. Remuneration is not directly linked to performance as it is considered that all directors have material vested interests in the success of the business through their holdings of shares, options and converting preference shares.

The information in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

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

The Board of Directors is responsible for determining and reviewing compensation arrangements for Directors and Executive Officers. It assesses 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
- 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 Board 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 Meetings. 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 Board will continue to 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, in most cases.

DIRECTORS' REPORT (Cont)

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 Board 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.

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

Performance-linked remuneration

The Company currently has no performance based remuneration. As previously stated the Board, who are the key management, have material vested interests in the success of the business through their holdings of shares, options and converting preference shares.

B. Service Agreements

Remuneration and other terms of employment for the key management personnel are not formalised in service agreements. However it should be noted that remuneration levels have not increased since the Company listed in 2006 on ASX, and any future adjustments will be approved at Board level. The major provisions of the remuneration of key management personnel are set out below.

The directors and key management personnel during the year included:

Directors

Mr A Bajada, Chairman

- Commenced 24 November 2004, no termination date;
- Non Executive Chairman's fees (paid as consulting fees), inclusive of superannuation, for the year ended 31 December 2008 of \$54,500 to be reviewed annually by the Board; and
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 3 months' fees.

Mr A Short, Managing Director

- Commenced 24 November 2004, no termination date;
- Base salary (paid as consulting fees), inclusive of superannuation, for the year ended 31 December 2008 of \$220,000, to be reviewed annually by the Board; and
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 3 months' fees.

Mr G Sklenka, Non-executive Director

- Commenced 24 November 2004, no termination date;
- Non executive director's fees (paid as consulting fees), inclusive of superannuation, for the year ended 31 December 2008 of \$38,148 to be reviewed annually by the Board;
- Additional consulting fees, inclusive of superannuation, for the year ended 31 December 2008 of \$62,580 to be reviewed annually by the Board;
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 3 months' director's and consulting fees.

DIRECTORS' REPORT (Cont)

Key Management Personnel

Mr D Ballantyne, Company Secretary

- Commenced 5 February 2008, no termination date.
- Consulting fee, based on time spent on Company business in the range of \$2,000 to \$10,000 per month to be reviewed annually by the Board.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to one (1) months' consulting fee.

Mr L Camacho, former Company Secretary

- Term of agreement commencing 1 July 2007, no termination date.
- Consulting fee, of \$7,267 per month to be reviewed annually by the Board.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to one (1) months' consulting fee.

C Details of Remuneration

The key management personnel of Advance Energy Limited during the year ended 31 December 2008 includes all directors and executives mentioned above.

Names and positions of key management personnel 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, Company Secretary (6 June 2008 to 4 July 2008)
Mr L Camacho	-	Company Secretary (Resigned 6 June 2008)
Mr D Ballantyne	-	Company Secretary (Appointed 4 July 2008)

Remuneration packages contain the following key elements:

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

DIRECTORS' REPORT (Cont)

Nature and amount of remuneration for the year ended 31 December 2008.

		Short-term employee benefits		Post - employ- ment benefits	Equity				
		Salary, consulting fees \$	Bonus \$	Superann- uation \$	Option based payments \$	Preference share based payments \$	Total \$	remuner- ation consisting of equity %	Remuneration linked to performance %
Executive directors									
A Short (Managing Director)									
	2008	220,000	-	-	-	-	220,000	-	-
	2007	220,000	18,333	-	-	-	238,333	-	8.3
Non-executive directors									
A Bajada									
	2008	54,500	-	-	-	-	54,500	-	-
	2007	54,500	4,542	-	-	-	59,042	-	8.3
G Sklenka									
	2008	100,728	-	-	-	-	100,728	-	-
	2007	100,000	8,333	-	-	-	108,333	-	8.3
Total directors' remuneration									
	2008	375,228	-	-	-	-	375,228	-	-
	2007	374,500	31,208	-	-	-	405,708	-	-
Other key management personnel									
Lance Camacho (Resigned 6 June 2008)									
	2008	36,335	-	-	-	-	36,335	-	-
	2007	114,134	7,267	5,856	-	-	127,257	-	-
D Ballantyne (Appointed January 2008)									
	2008	62,950	-	-	-	-	62,950	-	-
	2007	-	-	-	-	-	-	-	-
Total other key management remuneration									
	2008	99,285	-	-	-	-	99,285	-	-
	2007	114,134	7,267	5,856	-	-	127,257	-	-
TOTAL									
REMUNERATION	2008	474,513	-	-	-	-	474,513	-	-
	2007	488,634	38,475	5,856	-	-	532,965	-	-

D. Share-based Remuneration**Options**

No options were granted to directors and other key management during the year ended 31 December 2008.

Convertible Preference Shares

No convertible preference shares were issued during the year ended 31 December 2008.

DIRECTORS' REPORT (Cont)

E. Additional Information

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

As stated elsewhere in this Remuneration Report, the Board, who are the key management, have material vested interests in the success of the business through their holdings of shares, options and converting preference shares. Currently these holdings are considered an adequate performance based incentive to key management. They also help to preserve the Company's cash resources given that all efforts are currently being expended to build the business and establish self-sustaining revenue streams.

This is the end of the audited remuneration report.

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 under section 237 of the Corporations Act 2001 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
31 December 2010	\$0.40	250,000
TOTAL		19,350,000

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.

CONVERTIBLE PREFERENCE SHARES

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

	Number CPS in Issue
CPS B	5
CPS C	2
CPS D	2
Total	9

Conditions relating to the outstanding Convertible Preference Shares are contained in note 19.3.

DIRECTORS' REPORT (Cont)

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, BDO Kendalls Audit and Assurance (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 APES 110 Code of Ethics for Professional Accountants, 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.

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

BDO Taxation Services	\$ 13,424 (2007: \$45,220)
BDO Corporate Compliance Services	\$ Nil (2007: \$ 2,735)

Auditor's Independence Declaration

The Auditor's Independence Declaration, as required under Section 307c of the Corporations Act 2001, for the financial year ended 31 December 2008 has been received and can be found on page 23.

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

West Perth, W.A.
31st March 2009



A. Short
Managing Director



BDO Kendalls

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ABN 79 112 284 787

31 March 2009

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

Dear Sirs

**DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF
ADVANCE ENERGY LTD**

As lead auditor of Advance Energy Ltd for the year ended 31 December 2008, 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 the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Advance Energy Ltd and the entities it controlled during the year.

Glyn O'Brien
Director

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Perth, Western Australia.

INCOME STATEMENTS

For The Year Ended 31 December 2008

		Group		Parent Entity	
	Notes	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Revenue from continuing operations					
Sale of goods	5	5,071	3,630	-	-
Finance charges earned		3	56	650	830
Other income	5	1,154	266	211	266
		6,228	3,952	861	1,096
Profit on sale of asset	6	812	-	-	-
Expenses					
Cost of Oil & Gas sold		(1,348)	(735)	-	-
Finance costs	7	(1,704)	(1,266)	(1,154)	(581)
Foreign exchange gains/(losses)		-	-	3,427	(1,069)
Other expenses from ordinary activities					
Depreciation	7,12	(415)	(319)	(47)	(59)
Depletion of oil and gas properties	7,14	(2,107)	(793)	-	-
Exploration expenditure written off	7	-	(292)	-	-
Accounting and audit		(67)	(102)	(67)	(102)
Consultancy		(757)	(772)	(757)	(772)
Travel		(209)	(231)	(209)	(231)
Research reports and maps		(6)	-	(6)	-
Rent		(39)	(55)	(39)	(55)
Legal fees		(155)	(12)	(155)	(12)
Marketing and advertising		(49)	(77)	(49)	(77)
Regulatory		(53)	(41)	(53)	(41)
Staff costs		(157)	(629)	(157)	(629)
Administrative expenses		(846)	(351)	(383)	(13)
Profit/(Loss) before tax from continuing operations		(872)	(1,723)	1,212	(2,545)
Income tax(expense)/benefit	8	(37)	(66)	-	-
Net Profit/ (loss) for the year		(835)	(1,789)	1,212	(2,545)
Loss per share					
Basic and diluted (cents per share)	22	(0.97)	(2.61)	-	-

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

BALANCE SHEETS**As at 31 December 2008**

		Group		Parent Entity	
	Notes	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current assets					
Cash and cash equivalents	9	2,421	1,936	342	1,671
Trade and other receivables	10	926	740	648	56
Other financial assets	11	-	-	16,005	9,674
Derivative financial instrument	13	1,056	-	-	-
Total current assets		4,403	2,676	16,995	11,402
Non-current assets					
Property, plant and equipment	12	1,472	1,327	-	213
Oil and gas properties	14	22,963	14,484	-	-
Deferred tax assets	24	-	-	-	-
Other financial assets	15	17	-	1	1
Derivative financial instrument	13	254	-	-	-
Total non-current assets		24,706	15,811	1	214
Total Assets		29,109	18,487	16,995	11,615
Current liabilities					
Trade and other payables	16	2,255	418	822	278
Provisions	17	245	28	104	28
Interest bearing liabilities	18	5,985	12,718	5,985	5,800
Other financial liabilities	13	1,213	-	-	-
Total current liabilities		9,698	13,164	6,911	6,106
Non-current liabilities					
Deferred tax liability	25	-	37	-	-
Interest bearing liabilities	18	9,734	2,300	2,000	2,300
Total non-current liabilities		9,734	2,337	2,000	2,300
Total Liabilities		19,432	15,501	8,911	8,406
Net Assets		9,677	2,986	8,084	3,209
Equity					
Issued share capital	19	12,692	9,029	12,692	9,029
Reserves	20	4,444	581	1,972	1,972
Accumulated losses	21	(7,459)	(6,624)	(6,580)	(7,792)
Total Equity		9,677	2,986	8,084	3,209

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

CASH FLOW STATEMENTS

For The Year Ended 31 December 2008

		Group		Parent Entity	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities					
Receipts from customers		5,666	3,267	-	-
Payments to suppliers and staff		(2,533)	(2,711)	(1,492)	(1,491)
Interest received		3	56	211	51
Interest and borrowing costs		(1,376)	(1,259)	(918)	(626)
Derivative instruments		(151)	-	-	-
Other income		-	115	-	115
Net cash inflow/(outflow) from operating activities	23	1,609	(532)	(2,199)	(1,951)
Cash flows from investing activities					
Purchase of oil and gas properties		(5,415)	(2,643)	-	-
Sale of oil and gas properties		2,850	-	-	-
Purchase of plant and equipment		(481)	(348)	-	(133)
Sale of plant and equipment		-	-	165	-
Net cash inflow/(outflow) from investing activities		(3,046)	(2,991)	165	(133)
Cash flows from financing activities					
Proceeds from issues of shares		3,190	400	3,190	400
Capital raising costs		(95)	(135)	(95)	(135)
Proceeds from borrowings		3,474	5,285	3,474	4,575
Repayments of borrowings		(4,449)	(1,818)	(3,589)	(800)
Advances to subsidiary		-	-	(2,276)	(1,727)
Hedging contracts		1,213	-	-	-
Net cash inflows from financing activities		3,333	3,732	704	2,313
Net increase in cash and cash equivalents		1,896	209	(1,330)	229
Cash and cash equivalents at the beginning of the financial period		1,936	1,727	1,672	1,442
Exchange rate changes on cash		(1,411)	-	-	-
Cash and cash equivalents at the end of the financial period	9	2,421	1,936	342	1,671

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

STATEMENTS OF CHANGES IN EQUITY

For The Year Ended 31 December 2008

CONSOLIDATED

Year ended 31 December 2008	Issued Capital	Equity Reserve	Option Reserve	Foreign Currency Translation Reserve	Accumulated losses	TOTAL
\$'000						
Balance at beginning of period	9,029	150	1,822	(1,391)	(6,624)	2,986
Currency translation difference	-	-	-	3,863	-	3,863
Net income recognised directly in equity	-	-	-	3,863	-	3,863
Loss for the year	-	-	-	-	(835)	(835)
Total recognised income and expense for the year	-	-	-	3,863	(835)	3,028
Transactions with equity holders in their capacity as equity holders						
Issues of share capital, net of transaction costs	3,663	-	-	-	-	3,663
	12,692	150	1,822	2,472	(7,459)	9,677

Year ended 31 December 2007	Issued Capital	Equity Reserve	Option Reserve	Foreign Currency Translation Reserve	Accumulated losses	TOTAL
\$'000						
Balance at beginning of period	8,764	150	1,778	(414)	(4,835)	5,443
Currency translation difference	-	-	-	(977)	-	(977)
Net income recognised directly in equity	-	-	-	-	(1,789)	(1,789)
Loss for the year	-	-	-	-	(1,789)	(1,789)
Total recognised income and expense for the year	-	-	-	(977)	(1,789)	(2,766)
Transactions with equity holders in their capacity as equity holders						
Share based payments	-	-	44	-	-	44
Issues of share capital, net of transaction costs	265	-	-	-	-	265
	9,029	150	1,822	(1,391)	(6,624)	2,986

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

STATEMENTS OF CHANGES IN EQUITY (cont)

For The Year Ended 31 December 2008

PARENT ENTITY

Year ended
31 December 2008

	Issued Capital	Equity Reserve	Option Reserve	Accumulated losses	TOTAL
\$'000					
Balance at beginning of period	9,029	150	1,822	(7,792)	3,209
Net income recognised directly in equity	-	-	-	-	-
Loss for the year	-	-	-	1,212	1,212
Total recognised income and expense for the year	-	-	-	1,212	1,212
Transactions with equity holders in their capacity as equity holders					
Issues of share capital, net of transaction costs	3,663	-	-	-	3,663
	12,692	150	1,822	(6,580)	8,084

Year ended
31 December 2007

	Issued Capital	Equity Reserve	Option Reserve	Accumulated losses	TOTAL
\$'000					
Balance at beginning of period	8,764	150	1,778	(5,247)	5,445
Loss for the year	-	-	-	(2,545)	(2,545)
Total recognised income and expense for the year	-	-	-	(2,545)	(2,545)
Transactions with equity holders in their capacity as equity holders					
Share based payments	-	-	44	-	44
Issues of share capital, net of transaction costs	265	-	-	-	265
	9,029	150	1,822	(7,792)	3,209

The above Statements 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 2008

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.

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, Australian Accounting Interpretations and the Corporations Act 2001.

i) Going concern

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group has incurred a net loss after tax for the year ended 31 December 2008 of \$0.835 mil (2007: \$1.789 mil). However it did experience net cash inflows from operating activities of \$1.609 mil (2007: net cash outflows of \$0.532 mil). As at 31 December 2008, the Group had net current liabilities of \$5,295 mil (31 December 2007: net current liabilities of \$10.488 mil).

The Directors believe that there are sufficient funding strategies and alternatives to meet the Group's working capital requirements and are confident the Group will be able to raise the required funds in the future. However, the Directors recognise that the ability of the Group to continue as a going concern and to pay its debts as and when they fall due is dependent on its ability to secure additional funding through either the issue of further shares and or options, convertible notes or entering into negotiations with third parties regarding the sale and/or farm out of assets of the Company; or a combination thereof.

During the year ended 31 December 2008, the Group successfully raised \$3.9 million (before costs) by way of a non renounceable underwritten rights issue at 8 cents per share, which was completed in September 2008. It was also able to raise additional secured debt capital from Sterling Bank in the US and from Australian based lenders to assist with funding a total of US\$4.5 million in strategic acquisitions. The Group also sold its Lone Camp project in December 2008 for US\$2 million (at a significant profit). At the end of the year, in spite of a net acquisition base in the year of US\$2.5 million it had still been able to reduce its US bank debt by US\$740,000 and its Australian denominated debt by more than A\$100,000.

Of the total deficit of \$5,295 mil in net current liabilities, almost \$2.4 mil relates mainly to the maturity of convertible notes as reflected in note 18. In relation to these convertible notes the directors believe that the holder will agree to the reissue of new notes to the same value, amended for the market conditions prevailing at the time. This belief is based upon the fact that the same holder did this for \$2 million in notes during the year ended 31 December 2008.

Furthermore the Group is at an advanced stage of negotiation with a number of parties for additional convertible note funding, which will give it a high degree of flexibility, and the ability to move forward on a number of keenly priced corporate and project opportunities in the coming months, before the anticipated improvement in oil and gas prices later this year and into 2010.

The balance of net current liabilities of approximately \$2.8 mil is comprised of secured debt. The Company believes that it will be able to renegotiate terms for much of this debt beyond calendar 2009, should this be necessary.

Based on the above, the Group is confident that it will successfully raise additional funds to meet its financial obligations in the foreseeable future.

The directors have reviewed the business outlook and are of the opinion that the use of the going concern basis of accounting is appropriate. As such, the directors believe that they will continue to be successful in securing additional funds through debt or equity issues, or asset sales as and when the need to raise working capital arises.

Should any of the assumptions and strategies above not eventuate, there is uncertainty whether the Group will be able to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2008

Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

ii) Compliance with IFRSs

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated and parent financial statements and notes of Advance Energy Ltd comply with International Financial Reporting Standards (IFRSs).

iii) Early adoption of standards

The Group has not elected to apply any pronouncements early.

iv) Historical cost convention

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (derivatives).

v) 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. See note 3 for further details.

Principles of Consolidation

(i) 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 2008 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.

Inter-company 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.

(ii) 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 jointly controlled activity have been incorporated in the financial statements under the appropriate headings.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

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.

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.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, are taken to equity. When a foreign operation is sold 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

Property, Plant and Equipment

i) Plant and equipment

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

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.

ii) Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset which is estimated to vary between 3 and 5 years for office equipment and 5 to 15 years for plant and equipment.

Financial Instruments

Recognition and Derecognition

Regular purchases and sales of financial assets 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 expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets has expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(i) Investments in subsidiaries

Investments in subsidiaries are carried at cost less any impairment losses.

(ii) Borrowings and convertible notes

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.

(iii) 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. They are recognised at fair value on initial recognition and subsequently at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

(iv) 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.

(v) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the 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 impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(vi) Fair Value estimation

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

The fair value of financial instruments that are not traded in an active market (for example convertible notes, receivables and payables) 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.

Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value is recognised in the income statement:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

(i) *Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

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.

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.

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 an 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.

Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

Provisions

Provisions are recognised 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 recognised 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 recognised as a finance cost.

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.

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.

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 recognised, 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 recognised 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 recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

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 recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

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 recognised immediately unless the original vesting conditions are not market related and those conditions have not been met. 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.

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.

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 tax is provided on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and are recognised for all taxable temporary differences:

- Except where the deferred 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 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 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 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 tax asset to be utilised.

Deferred 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.

Deferred and income taxes relating to items recognised directly in equity are recognised directly in equity.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

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.

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.

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.

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.

New accounting standards and interpretations

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 June 2008. The adoption of these new and revised Standards and Interpretations did not have any effect on the financial position or performance of the Group.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 31 December 2008. These are outlined in the table below:

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 <i>Segment Reporting</i> , which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. In addition, the amendments may have an impact on the Group's segment disclosures.	1 July 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	Not applicable to the Group, therefore no impact.	1 July 2009
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has share-based payment arrangements that may be affected by these amendments. However, it is not expected that any material change will arise from this amendment based on current circumstances.	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of significant changes to the accounting for business combinations.	1 July 2009	Unless the Group enters into Business Combinations in the future, this standard is not applicable and will therefore have no impact.	1 July 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Group's income statement.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Unless the Group enters into Business Combinations in the future, this standard is not applicable and will therefore have no impact.	1 July 2009
Amendments to International Financial Reporting Standards	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	Unless the Group enters into Business Combinations in the future, this standard is not applicable and will therefore have no impact.	1 July 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
Amendments to International Financial Reporting Standards	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009.	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	This interpretation proposes that the hedged risk in a hedge of a net investment in a foreign operation is the foreign currency risk arising between the functional currency of the net investment and the functional currency of any parent entity. This also applies to foreign operations in the form of joint ventures, associates or branches.	1 January 2009	Not applicable to the Group, therefore no impact.	1 July 2009

* designates the beginning of the applicable annual reporting period unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. 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. Derivatives are exclusively used for hedging purposes, (i.e. not as trading or other speculative instruments). The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and aging analysis for credit risk.

Risk management is carried out by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The Group seeks to mitigate the effect of its foreign currency exposure by borrowing in USD for US operations.

The Group's exposure to foreign exchange risk at the reporting date is limited to the transfer of funding from the Australian head office to fund the US operations.

The American subsidiary is not exposed to foreign exchange risk as all transactions are denominated in its functional currency being US dollars. The parent entity is exposed to foreign exchange risk through its intercompany loan to the American subsidiary as it is denominated in US dollars.

The Parent's exposure to foreign currency risk at the reporting date was as follows:

Foreign Assets

	Parent entity 2008 US\$'000	2007 US\$'000
Financial assets		
Intercompany loan	11,231	8,630
Total Assets	11,231	8,630

(ii) Parent entity sensitivity

The parent entity's post-tax profit for the year and equity would have been \$1,778,000 lower/\$1,455,000 higher (2007 (loss) – \$1,080,000 lower/\$884,000 higher) had the Australian dollar weakened/strengthened by 10% against the US dollar, mainly as a result of foreign exchange gains/losses on the translation of US dollar denominated loans to the subsidiary. These borrowings are designated as a hedge of the entity's net investment in the US subsidiary and hence any foreign exchange gains or losses are taken to the foreign currency translation reserve on consolidation.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

(iii) Price risk

The Group and the parent entity are exposed to oil and gas price risk. The price the company achieves for its product is closely linked 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. The company has a hedging policy which will hedge up to 50% of expected production up to 24 months in advance. Additional hedging over and above the 50 % base may be applied as the directors feel necessary. At 31 December 2008 the Group had three hedging contracts in place, one being a costless collar contract for 5,000 MMbtu of natural gas per month, one being a costless collar contract for 1,000 barrels of oil per month and one being a costless call spread collar for 1,000 barrels of oil per month.

(iv) Group sensitivity

For the Group, At 31 December 2008, if prices had changed by +/- 10 % with all other variables held constant, post-tax loss and equity for the year would have been \$570,100 lower/higher (2007 – \$363,000 lower/higher), mainly as a result of higher/lower revenue from oil and gas sales.

(v) Parent entity sensitivity

There would have been no change to the results of the Company as the derivatives are all recognised in the subsidiaries.

(vi) Cash flow and fair value interest rate risk

Interest rate risk arises from both short and long-term borrowings. Borrowings issued at variable rates expose the Group and Parent Entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group and Parent Entity to fair value interest rate risk. During 2007 and 2008, the Group's borrowings at variable rate were denominated in US Dollars. The Parent Entity's borrowings were a mixture of external loans and convertible notes largely at fixed rates and denominated in Australian Dollars, and its loan to subsidiary which is at variable rate and denominated in US Dollars. Generally speaking the Group and Parent Entity's variable rate risks have a degree of correlation to oil and gas prices. The Group also reviews its arrangements on a regular basis. The Parent Entity's fixed rate risk is managed by limiting borrowings of this nature to periods of no more than two years, or if larger, to interest rate reviews every two years.

(vii) Group sensitivity

At 31 December 2008, if interest rates had changed by +/- 10% from the year-end rates with all other variables held constant, post-tax loss for the year would have been \$107,000 lower/higher (2007 -: \$154,000 lower/higher), mainly as a result of lower/higher interest expense on the US overdraft facility and convertible notes.

(viii) Parent entity sensitivity

The parent entity's main interest rate risk arises from cash equivalents with both fixed and variable interest rates. At 31 December 2008, if interest rates had changed by or are renewed with rates +/- 10% from the year-end rates with all other variables held constant, post-tax profit would have been \$47,000 lower/higher (2007 -: \$89,000 lower/higher) as a result of interest income and expenses on these financial assets.

(b) Credit risk

The Group has some credit risk through its hedging programme. This is managed by ensuring we use the leading broker of exchange-listed futures and options in the world, MF Global Ltd who are A3/BBB+/BBB+ rated by Moody's, S&P and Fitch respectively. In addition the group makes cash calls upon MF Global whenever the Mark to Market exceeds US\$300,000.

The Parent Entity has credit risk through its inter company loans to its US subsidiary, Advance Exploration and Production, Inc; and manages this by ensuring it always has an adequate level of asset cover, through its high quality oil and gas production assets in long life stable producing areas.

(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 and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Refer to note 1(a) for further information on working capital arrangements.

(i) Financing arrangements

The parent entity had no access to undrawn borrowing facilities and the Group had access to the following undrawn borrowing facilities at the reporting date:

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

(i) Financing arrangements (Cont)

Consolidated

The Group has 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\$ 40 million. The loan bears interest at US prime plus 1.0% and is secured against the company's oil and gas properties. As at the end of the financial period the available credit was US\$5.8 million of which US\$5.4 million had been drawn. The loan facility matures on 31 March 2011.

(ii) Maturities of financial liabilities

The tables below analyses the Group's and the parent entity's financial liabilities based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows as at 31 December 2008.

Group	\$'000 Within 6 months	2008 \$'000 6 Months to 1 year	\$'000 Between 1 and 2 years	\$'000 Within 6 months	2007 \$'000 6 Months to 1 year	\$'000 Between 1 and 2 years
Financial Assets						
Cash	2,421	-	-	1,936	-	-
Receivables	926	-	-	740	-	-
Commodity financial instruments	1,056	-	-	-	-	-
Total Financial Assets	4,403	-	-	2,676	-	-
Financial Liabilities						
Trade Creditors and accruals	2,500	556	-	436	37	-
Convertible Note	-	2,300	2,000	5,800	-	2,300
Interest bearing borrowings	13,719	-	-	6,918	-	-
Total Financial Liabilities	16,219	2,856	2,000	13,154	37	2,300
Company						
	\$'000 Within 6 months	2008 \$'000 6 Months to 1 year	\$'000 Between 1 and 2 years	\$'000 Within 6 months	2007 \$'000 6 Months to 1 year	\$'000 Between 1 and 2 years
Financial Assets						
Cash	342	-	-	1,671	-	-
Receivables	648	16,005	-	56	-	9,674
Total Financial Assets	990	16,005	-	1,727	-	9,674
Financial Liabilities						
Trade Creditors and accruals	926	-	-	306	-	-
Convertible Note	-	2,300	2,000	5,800	-	2,300
Interest bearing borrowings	-	-	-	-	-	-
Total Financial Liabilities	926	2,300	2,000	6,106	-	2,300

(d) Fair value estimation

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

The fair value of financial instruments that are not traded in an active market 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 the remaining financial instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont)**For The Year Ended 31 December 2008****(e) Capital risk management**

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern. Where possible they seek to maximise longer term debt and to minimise additional equity capital, to avoid unnecessary shareholder dilution. Refer to note 1(a) for further information on working capital arrangements.

		GROUP		PARENT ENTITY	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Total borrowings	16,18	17,974	15,436	8,807	8,378
Less: Cash and cash equivalents	9	(2,421)	(1,936)	(342)	(1,671)
Net debt		15,553	13,500	8,465	6,707
Total equity		9,677	2,986	8,084	3,209
Total capital		25,230	16,486	16,549	9,916
Gearing ratio		62%	82%	52%	68%

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 recoverable amount of oil and gas properties

The Group tests annually whether oil and gas properties have suffered any impairment, in accordance with the accounting policy stated in note 1. 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. The assumptions used for impairment testing can be found in Note 2.

(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 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 \$NIL (2007: \$43,275). The assessed fair value at grant date of options granted during the period was expensed 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 are included in note 20. Should these options not be exercised by the expiring dates, these amortised amounts will be written back to the income statement in full.

(iii) Fair Value of Derivatives**Hedging Instruments**

The group has an unrealised derivative instrument asset recorded at 31 December 2008 of \$1.31 million (US\$0.92 million) (2007: Nil) in relation to oil and gas commodity hedges, which expire partly in February 2009, partly in March 2009 and partly in May 2010. This asset effectively represents the amount that would have been paid to the group as at 31 December 2008 if it had terminated all of its hedging contracts on that day. This number is a combination of the time still to expire on the contracts, and oil and gas prices, and has no impact on the group's cash flow unless contracts are terminated. Furthermore it should be noted that this Mark to Market position changes based upon daily settlement prices.

NOTES TO THE FINANCIAL STATEMENTS (Cont)**For The Year Ended 31 December 2008****(iv) 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. Further information is contained in note 16. Should these notes not be converted, they will have no effect on equity as they will be repaid.

(v) 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 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.

4. SEGMENT REPORTING**Business Segment**

The consolidated entity operates solely in the exploration for oil and gas and development of the properties into producing assets. 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.

2008	USA \$'000	Australia \$'000	Eliminations \$'000	Consolidated \$'000
Geographical segment				
Revenues from continuing operations	5,071	-	-	5,071
Segment result (loss)	824	1,210	(3,426)	(1,392)
Segment assets	28,120	16,996	(16,006)	29,110
Segment liabilities	27,082	8,911	(16,005)	19,988
Acquisition of plant & equipment, exploration & evaluation and other non-current assets	5,831	-	-	5,831
Depreciation and amortisation	1,661	48	-	1,709
2007	USA \$'000	Australia \$'000	Eliminations \$'000	Consolidated \$'000
Geographical segment				
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	291	1,112

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

5. REVENUE FROM CONTINUING OPERATIONS

	GROUP 2008 \$'000	2007 \$'000	PARENT ENTITY 2008 \$'000	2007 \$'000
Oil and gas sales	5,071	3,630	-	-
	5,071	3,630	-	-
Other income		-	-	-
Derivative income	943	-	-	-
Other income	211	266	211	266
	1,154	266	211	266

6. PROFIT ON SALE OF ASSETS

	GROUP 2008 \$'000	2007 \$'000	PARENT ENTITY 2008 \$'000	2007 \$'000
Cost of assets	1,650	-	-	-
Depletion	(41)	-	-	-
Proceeds from sale	(2,421)	-	-	-
Profit on sale of assets	(812)	-	-	-

7. EXPENSES

	GROUP 2008 \$'000	2007 \$'000	PARENT ENTITY 2008 \$'000	2007 \$'000
Loss from continuing operations before income tax has been determined after				
(a) Depreciation and depletion				
Depreciation of plant and equipment	415	319	47	59
Depletion of oil and gas properties	2,107	793	-	-
Total depreciation and depletion	2,522	1,112	47	59
(b) Lease payments				-
Minimum lease payments		-		
- operating lease				
(c) Employee/consultant benefit expense				
Directors/key management expense	417	533	417	533
Share/option based payments	-	44	-	44
(d) Finance costs				
Interest on borrowings	1,704	1,238	1,154	555
Borrowing costs	-	28	-	26
Total Finance costs	1,704	1,266	1,154	581
(e) Exploration costs written off	-	292	-	-

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

8. INCOME TAX

	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
a) Income tax (benefit)/expense				
Current tax charge	-	-	-	-
Deferred tax relating to origination and reversal of temporary differences	(37)	66	-	-
Income tax expense/(benefit) reported in the Income Statement	(37)	66	-	-
b) Deferred tax (benefit)/expense				
Decrease/(increase) in deferred tax asset	-	110	-	-
(Decrease)/increase in deferred tax liability	(37)	(44)	-	-
	(37)	66	-	-
c) Numerical reconciliation of income tax expense to prima facie tax payable				
Accounting loss before tax	(872)	(1,723)	1,212	(2,545)
At statutory income tax rate of 30%	(262)	(517)	364	(763)
Expenditure not allowable for tax purposes	(73)	18	(73)	18
Deferred Tax Assets not brought to account	(291)	492	(291)	800
Foreign exchange movements	589	73	-	(55)
Income tax expense/(benefit)	(37)	66	-	-
d) Deferred tax assets not brought to account				
Parent tax loss for the year	1,818	1,038	1,818	1,038
<i>Australian timing differences:</i>				
Capital raising expenses	169	193	169	193
Depreciable assets	-	16	-	16
Accrued expenses	8	16	8	16
Borrowing costs	36	28	36	28
Unrealised forex losses	(683)	308	(720)	308
Deductible employee entitlements	-	3	-	-
Total unrecognised	1,274	1,602	1,311	16

The franking balance as at the end of the year was nil (2007:nil)

Advance Energy Ltd has tax losses arising in Australia of \$6,060,476 (2007: \$2,428,351) that are available indefinitely to offset against future profits of the Company providing the tests for deductibility against future profits are met.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

9. CASH AND CASH EQUIVALENTS

	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash at bank	2,421	1,936	342	1,671

Cash at bank earned a floating rate of interest of between 6.5% and 8.5% (2007: 6.5%).

Reconciliation to cash at end of year

The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statements as follows:

Balances as above	2,421	1,936	342	1,671
Balance as per cash flow statements	2,421	1,936	342	1,671

Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is disclosed in Note 2

10. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current				
Trade receivables	278	282	-	32
Loans to subsidiaries	-	-	16,004	9,674
Other receivables	648	458	648	24
	926	740	16,652	9,730

a) Impaired trade receivables

As at 31 December 2008 there were no impaired trade receivables for the Group or the parent entity. This was the same as at 31 December 2007.

b) Past due but not impaired

As of 31 December 2008 there were no trade receivables considered to be past due. (31 December 2007: Nil)

c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. Interest may be charged at commercial rates where the terms of the repayment exceed six months. Collateral is not normally obtained.

d) Foreign exchange and interest rate risk

Information about the Group's and the parent entity's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 2.

e) Fair value and credit risk

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

NOTES TO THE FINANCIAL STATEMENTS (Cont)**For The Year Ended 31 December 2008****10. TRADE AND OTHER RECEIVABLES (Cont)**

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. (The fair value of securities held for certain trade receivables is insignificant as is the fair value of any collateral sold or repledged.) Refer to Note 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

- f) 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.
- (i) These financial assets are carried at amortised cost.
- (ii) None of the loans to subsidiaries are impaired or past due. The fair value of loans to subsidiaries approximates their carrying value.

11. EXPLORATION & EVALUATION COSTS

	GROUP		PARENT ENTITY	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Non-Current				
Exploration, evaluation and development costs carried forward in respect of areas of interest in exploration and evaluation phases	-	-	-	-
Reconciled as follows:				
Opening balance	-	292	-	-
Exploration assets written off during the period	-	(292)	-	-
Closing Balance	-	-	-	-

There were no exploration and evaluation costs capitalised during the year. All previously capitalised expenses have been impaired.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

12. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Plant and equipment \$'000	Office equipment \$'000	Total \$'000
At 1 January 2007			
Cost	1,338	203	1,541
Accumulated depreciation	(77)	(37)	(114)
Net book value	1,261	166	1,427
Year ended 31 December 2007			
Opening net book value	1,261	166	1,427
Exchange differences	(126)	(3)	(129)
Additions	209	139	348
Disposals	-	-	-
Depreciation	(252)	(67)	(319)
Closing net book value	1,092	235	1,327
At 31 December 2007			
Cost	1,405	334	1,739
Accumulated depreciation	(313)	(99)	(412)
Net book value	1,092	235	1,327
Year ended 31 December 2008			
Opening net book value	1,092	235	1,327
Exchange differences	155	12	167
Additions	616	120	736
Disposals	(57)	(286)	(343)
Depreciation	(356)	(59)	(415)
Closing net book value	1,450	22	1,472
At 31 December 2008			
Cost	2,243	46	2,289
Accumulated depreciation	(793)	(24)	(817)
Net book value	1,450	22	1,472

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

PARENT

	Plant and equipment \$'000	Office equipment \$'000	Total \$'000
At 1 January 2007			
Cost	-	168	168
Accumulated depreciation	-	(30)	(30)
Net book value	-	138	138
Year ended 31 December 2007			
Opening net book value	-	138	138
Exchange differences	-	-	-
Additions	-	133	133
Disposals	-	-	-
Depreciation	-	(58)	(58)
Closing net book value	-	213	213
At 31 December 2007			
Cost	-	302	302
Accumulated depreciation	-	(89)	(89)
Net book value	-	213	213
Year ended 31 December 2008			
Opening net book value	-	213	213
Exchange differences	-	-	-
Additions	-	120	120
Disposals	-	(168)	(168)
Depreciation	-	(165)	(165)
Closing net book value	-	-	-
At 31 December 2008			
Cost	-	-	-
Accumulated depreciation	-	-	-
Net book value	-	-	-

13 DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current assets				
Oil & Gas Hedging	1,056	-	-	-
Total current derivative assets	1,056	-	-	-
Non-current assets				
Oil & Gas Hedging	254	-	-	-
Total non-current assets	254	-	-	-
Current liabilities				
Mark to market escrowed funds	1,213	-	-	-
Total current derivative financial instrument liabilities	1,213	-	-	-
	97	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Cont)**For The Year Ended 31 December 2008****13 DERIVATIVE FINANCIAL INSTRUMENTS (Cont)**

Forward exchange contracts – held for trading

The Group has entered into forward exchange contracts which are economic hedges but do not satisfy the requirements for hedge accounting. These contracts are subject to the same risk management policies as all other derivative contracts, see note 2 for details. However, they are accounted for as held for trading.

14. OIL AND GAS PROPERTIES

	GROUP		PARENT ENTITY	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Oil and gas properties – cost	25,808	15,460	-	-
Less accumulated depletion	(2,885)	(976)	-	-
	22,963	14,484	-	-
Movements in carrying amounts are reconciled as follows:				
Opening balance	14,484	14,269	-	-
Acquired during period	5,552	2,643	-	-
Sold during period	(1,425)	-	-	-
Depletion charge	(1,294)	(793)	-	-
Foreign exchange difference	5,646	(1,635)	-	-
	22,963	14,484	-	-

15. OTHER FINANCIAL ASSETS

	GROUP		PARENT ENTITY	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Non-Current				
Shares in subsidiaries (Note 26)	-	-	1	1
Prepayments	17	-	-	-
	17	-	1	1

16. TRADE AND OTHER PAYABLES

	GROUP		PARENT ENTITY	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Trade payables	1,589	368	155	228
Other payables	666	50	667	50
	2,255	418	822	278

Refer to Note 2 for foreign currency exposure and disclosures on fair values.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

17. PROVISIONS

	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Other Payables	245	28	104	28

On 1 July 2008 AAG Management Pty Ltd assumed the responsibility for all facilities and personnel at the Company's registered office. As part of the arrangement all employees were transferred to AAG Management Pty Ltd.

18. INTEREST BEARING LOANS AND BORROWINGS

	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current				
Convertible Note – unsecured ¹				
Face value of the note	2,300	5,725	2,300	5,725
Accrued interest	27	75	27	75
	2,327	5,800	2,327	5,800
Short term loans				
Secured	2,900	-	2,900	-
Unsecured	574	-	574	-
Accrued interest	184	-	184	-
	3,658	-	3,658	-
Bank loan – secured ²	-	6,918	-	-
	5,985	12,718	5,985	5,800
Non-current				
Convertible Notes – unsecured ¹				
Face value of the note	2,000	2,300	2,000	2,300
Interest accrued	-	-	-	-
	2,000	2,300	2,000	2,300
Bank loan – secured ²	7,734	-	-	-
	9,734	2,300	2,000	2,300

- 1) During the year the Company repaid convertible notes to the value of \$3,225,000. Convertible notes to the value of \$2,000,000 were redeemed simultaneously with the issue of new notes to the same value. The total face value of convertible notes on issue is \$4,300,000. In aggregate these may be converted at the option of the holder into a maximum of 24,600,000 shares before the expiry date, at prices ranging between \$0.10 and \$0.50. The terms of the notes are eighteen (18) months with coupon rates of 11% and 12% per annum.

NOTES TO THE FINANCIAL STATEMENTS (Cont)**For The Year Ended 31 December 2008****18. INTEREST BEARING LOANS AND BORROWINGS (Cont)**

- 2) During February 2006, Advance Exploration and Petroleum, Inc, (AEPI) the Company's wholly owned US subsidiary, entered into a revolving line of credit with Sterling 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\$ 40 million. The loan bears interest at US prime plus 1.0% and is secured against the company's oil and gas properties. As at the end of the financial period the Company had drawn down US\$5.4 million. This balance has been disclosed under non-current liabilities as the facility mature date is March 2011. This facility is secured against oil and gas properties owned by AEPI.

Refer to Note 2 for fair value interest rate risk.

The carrying amounts of assets pledged as security for the current and non-current borrowings are:

		Group		Parent Entity	
	Notes	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current					
Floating charge					
Cash and cash equivalents	9	2,421	1,936	342	1,671
Trade and other receivables	10	926	740	16,652	9,730
Derivative financial instrument		1,056	-	-	-
Total current assets pledged as security		4,403	2,676	16,995	11,402
Non-current					
Floating charge					
Property, plant and equipment	12	1,472	1,327	-	213
Oil and gas properties	14	22,963	14,484	-	-
Deferred tax assets	24	-	-	-	-
Other financial assets	15	17	-	1	1
Derivative financial instrument		254	-	-	-
Total non-current assets pledged as security		24,706	15,811	1	214
Total assets pledged as security		29,109	18,487	16,995	11,615

Fair value

The carrying amounts of borrowings are considered to be materially the same as their fair values.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

19. ISSUED CAPITAL**19.1 Ordinary shares**

	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
118,798,222 fully paid ordinary shares (2007: 69,299,099)	12,694	9,029	12,694	9,029
Movements in shares on issue				
Beginning of period	9,029	9,961	9,029	9,961
Shares issued during the period	-	-	-	-
Convertible note conversion 100,000 @ \$0.50	-	50	-	50
1,000,000 shares issued @ \$0.35	-	350	-	350
49,499,123 shares issued @ \$0.08¢	3,960	-	3,960	-
	12,989	10,361	12,989	10,361
Less capital raising costs	(295)	(1,332)	(295)	(1,332)
End of year	12,694	9,029	12,694	9,029

- (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.

19.2 Options

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

2008					
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
		19,350,000	-	-	19,350,000
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

No options have expired or have been cancelled since incorporation.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

19.3 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:

2008 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

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

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

CPS-B – upon the Company achieving production of 500 barrels of oil equivalent per day (BOEPD)

CPS-C – upon the Company achieving production of 1,000 BOEPD

CPS-D – upon the Company achieving production of 1,500 BOEPD

20. RESERVES

	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Option reserve ⁽¹⁾	1,822	1,822	1,822	1,822
Foreign currency translation reserve ⁽²⁾	2,472	(1,391)	-	-
Equity reserve ⁽³⁾	150	150	150	150
	4,444	581	1,972	1,972
⁽¹⁾ Option reserve				
Opening balance	1,822	1,778	1,822	1,778
Issue of options during period	-	44	-	44
	1,822	1,822	1,822	1,822
⁽²⁾ Foreign currency translation				
Opening balance	(1,391)	(414)	-	-
Currency translation differences arising during the year	3,863	(977)	-	-
	2,472	(1,391)	-	-
⁽³⁾ Equity reserve				
Opening balance	150	150	150	150
	150	150	150	150

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

20. RESERVES (Cont)

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 (2007: 17.3 cents 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%

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. 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 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.

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 \$1,108,100 (2007: \$1,108,100) in aggregate had been reflected through the income statement.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

21. ACCUMULATED LOSSES

	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Accumulated losses at the beginning of the year	(6,624)	(4,835)	(7,792)	(5,247)
Net loss attributable to the members of the parent entity	(835)	(1,789)	1,212	(2,545)
Accumulated losses at the end of the financial year	(7,459)	(6,624)	6,580	(7,792)

22. EARNINGS PER SHARE

	GROUP	
	2008 \$'000	2007 \$'000
Basic earnings per share		
Reconciliation of earnings to net loss		
Net loss	(835)	(1,789)
Earnings/(loss) used in the calculation of basic and dilutive EPS	(835)	(1,789)
	Number	Number
Weighted average number of ordinary shares outstanding during the period used in calculation of basic and dilutive EPS	85,829,120	68,506,496

Details of the shares issued are included under note 19. Dilutive EPS is not reflected as it would result in the reduction of the loss per share.

23. CASH FLOW INFORMATION

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

	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Profit (loss) after income tax	(835)	(1,789)	1,273	(2,545)
Non cash flows in profit (loss) from continuing operations				
Depreciation	415	319	48	59
Depletion	2,107	793	-	-
Exploration assets written off	-	292	-	-
Increase/(decrease) in provisions	-	(16)	-	(16)
Option cost expensed	-	44	-	44
Profit on sale of assets	(813)	-	(213)	-
Loss on sale of asset	1	-	-	-
Interest income not received	-	-	650	(778)
Derivative financial instrument	(1,310)	-	-	-
Interest accrued not paid	-	-	-	51
Foreign exchange difference	155	(2)	(3,422)	1,069
Changes in assets and liabilities				
Increase/(decrease) in trade creditors and accruals	1,542	36	(807)	136
Increase/(decrease) in trade and other receivables	384	(275)	272	29
(Increase)/decrease in deferred tax assets	-	110	-	-
Increase/(decrease) in deferred tax liabilities	(37)	(44)	-	-
Cash flows from (used in) operations	1,609	(532)	(2,199)	(1,951)

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

24. DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:

	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Organisation costs	-	-	-	-
Book depletion	-	-	-	-
Net operating loss	-	-	-	-
Net deferred tax asset	-	-	-	-
Movements:				
Opening balance	-	110	-	-
Amount brought to account	-	(110)	-	-
Foreign exchange difference	-	-	-	-
Closing balance	-	-	-	-

25. DEFERRED TAX LIABILITIES

	Production Costs \$'000	Total \$'000
Movements - Group		
At 1 January 2007	85	85
Charged/(credited) to the income statement	(48)	(48)
As at 31 December 2007	37	37
Charged/(credited) to the income statement	(37)	(37)
Foreign exchange difference	-	-
As at 31 December 2008	-	-

Movements – Parent Entity

At 1 January 2007	-	-
Charged/(credited) to the income statement	-	-
As at 31 December 2007	-	-
Charged/(credited) to the income statement	-	-
As at 31 December 2008	-	-

26. SUBSIDIARIES

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

Name of Subsidiary	Place of Incorporation	Percentage held 2008	Percentage held 2007
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).

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

27. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Directors and officers, 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 in the reporting period. The terms and conditions of these transactions, which involved primarily the Company recharging the related entities for office and secretarial services and some related entities recharging the Company for travel and accommodation costs, 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. No amounts were recharged in the prior year. The amounts charged during the year to related entities are detailed below:

Related Entity	Charged to related entity 2008 \$'000	Charged to related entity 2007 \$'000	Amount owing by related entity 2008 \$'000	Amount owing by related entity 2007 \$'000	Charged by related entity 2008 \$'000	Charged by related entity 2007 \$'000	Amount owing to related entity 2008 \$'000	Amount owing to related entity 2007 \$'000
AAG Management Pty Ltd	-	-	-	-	307	-	29	-
AXG Mining Limited	44	61	-	7	11	14	3	-
Excalibur Mining Corporation Limited	51	220	-	5	-	5	-	-
Greencode Pty Ltd	-	-	-	-	169	-	169	-
Kilgore Oil & Gas Limited	200	12	-	-	-	-	24	-
Nile Resources Limited	28	17	-	3	-	-	-	-
Odin Energy Limited	80	145	-	5	-	-	-	-
Palace Resources Limited	27	17	-	1	-	1	3	-
Pure Dawn Pty Ltd	-	-	-	-	126	-	126	-
Regal Resources Limited	27	12	-	1	-	-	6	-
Vector Resources Limited	41	13	12	5	-	-	-	-

During the financial year ended 31 December 2007 Odin Energy Limited prepaid the Company \$250,000 for US consulting services that it intends to use during 2009 from the Company's wholly owned subsidiary, Advance Exploration and Production, Inc. As at 31 December 2008 this has been disclosed as a customer deposit and is included in Trade and Other Payables (refer note 16 to the Financial Statements)

At 31 December 2008 the parent had outstanding loans with related parties. The table below represents the outstanding principle amounts with any outstanding fees or interest shown in the table above.

Related Entity	2008 \$'000	2007 \$'000
Greencode Pty Ltd	900	-
Kilgore Oil & Gas Limited	350	-
Odin Energy Limited	2,000	-
Palace Resources Limited	200	-

On 1 July 2008 AAG Management Pty Ltd took over the management of the leased premises and the day to day running of the administrative aspect for the Group and related parties located at the same premises. At the same time AAG Management purchased all furniture, fittings, computer and software assets at their carrying value. They also assumed all payroll and other staffing liabilities. The amount received was \$307,401.

The aggregate amounts recognised during the year relating to specified directors/officers and their personally-related entities are included in the primary benefits component of remuneration of directors by the consolidated entity in the remuneration report (refer page 21 of this Annual Report).

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

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

Specified Director/Officer	Transaction	Note	2008 \$'000	2007 \$'000
Alex Bajada	Consulting fees	(i)	60	59
Anthony Short	Consulting fees	(ii)	220	238
Gordon Sklenka	Consulting fees	(iii)	101	108
Lance Camacho	Consulting fees	(iv)	36	127
David Ballantyne	Consulting fees	(v)	63	-

- (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.
- (iv) The Company used the consulting services of Mr Lance Camacho.
- (v) The Company used the consultancy services of Sandgroper Pty Ltd, a company which Mr David Ballantyne is a director.

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 \$5,161 (2006: \$20,111).

(b) Wholly owned group transactions

Details of interests in wholly owned controlled entities are set out in Note 26.

Details of inter company loans are:

	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Balances with entities in the wholly-owned group receivable – non-current	-	-	16,005	9,674

Loans between entities in the wholly owned group are denominated in US\$, bear interest at market rates, are unsecured and are repayable upon reasonable notice having regard to the financial stability of the Company. During the year advances of \$2,255,914 (2007: \$1,685,117) were made, and interest of \$650,377 (2007: \$776,807) was charged. In 2008 there were no repayments (2007: Nil).

28. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Parent Entity Key Management Personnel Remuneration

	Group		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
Short-term employee benefits	474,513	527,109	474,513	527,109
Post-employment benefits	-	5,856	-	5,856
Long-term employee benefits	-	-	-	-
Share-based payment	-	-	-	-
	474,513	532,965	474,513	532,965

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

Share and Option holdings

The interests of the Directors in shares, Convertible Preference Shares (“CPS”) and options of the Company as the year end were:

Shares Indirectly Held – Year Ended 2008

Director	Balance at start of year	Acquired during year	Sold during year	Balance at end of year
Alex Bajada	3,020,001	2,157,143	-	5,177,144
Anthony Short	8,674,002	7,784,597	-	16,458,599
Gordon Sklenka	3,000,000	3,805,357	-	6,805,357

Shares Indirectly Held – Year Ended 2007

Director	Balance at start of year	Acquired during year	Sold during year	Balance at end of year
Alex Bajada	2,000,001	1,020,000	-	3,020,001
Anthony Short	7,650,002	1,024,000	-	8,674,002
Gordon Sklenka	2,000,000	1,000,000	-	3,000,000

Options Indirectly Held – Year Ended 2008

Director	Balance at start of year	Acquired during year	Sold during year	Balance at end of year (vested and exercisable)
Alex Bajada	2,000,000	-	-	2,000,000
Anthony Short	4,000,000	-	-	4,000,000
Gordon Sklenka	2,000,000	-	-	2,000,000

Options Indirectly Held – Year Ended 2007

Director	Balance at start of year	Acquired during year	Sold during year	Balance at end of year (vested and exercisable)
Alex Bajada	2,000,000	-	-	2,000,000
Anthony Short	4,000,000	-	-	4,000,000
Gordon Sklenka	2,000,000	-	-	2,000,000

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

CPS Indirectly Held – Year Ended 2008

Director	Balance at start of year	Acquired during year	Sold during year	Balance at end of year
Alex Bajada	1	-	-	1
Anthony Short	3	-	-	3
Gordon Sklenka	1	-	-	1

CPS Indirectly Held – Year Ended 2007

Director	Balance at start of year	Acquired during year	Sold during year	Balance at end of year
Alex Bajada	1	-	-	1
Anthony Short	3	-	-	3
Gordon Sklenka	1	-	-	1

Refer to page 17 of the Directors' Report for further information. No shares or options were issued to directors during the current or previous financial year.

29. REMUNERATION OF THE AUDITORS

	GROUP		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Amounts received or due and receivable by BDO Kendalls Audit and Assurance (WA) Pty Ltd for:				
Audit and audit review services of the financial reports	53,933	53,000	53,933	53,000
Other services – Taxation	13,424	45,220	13,424	45,220
– Other	-	2,735	-	2,735
	67,357	100,955	67,357	100,955
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	50,175	39,455	-	-
Other services – Taxation	15,377	7,813	-	-
– Other	-	-	-	-
	65,552	47,268	-	-
	132,909	148,223	67,357	100,955

30. COMMITMENTS

	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Operating lease				
The Group leases an office under a non-cancellable operating lease expiring within one year. On renewal the lease will be transferred to AAG Management Pty Ltd. Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one (1) year	154	-	154	-
Between 1 and 5 years	20	10	20	10
Longer than 5 years	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2008

31. JOINT OPERATIONS

	GROUP	
	2008 \$'000	2007 \$'000
The Group holds interests in the assets of a number of unincorporated joint ventures, in Texas, USA.		
Other joint venture information		
Oil and gas revenues	5,071	3,630
Contingent liabilities	-	-
Capital commitments	-	-

The principal activities of these joint operations are oil and gas exploration, development and production.

The assets and liabilities of the group include the following items which represent the group's interest in the assets and liabilities employed in unincorporated joint operations, recorded in accordance with the accounting policies described in note 1 to these financial statements. Income and expenditure is brought to account based on Operator Manager monthly statements of production and sales.

	GROUP	
	2008 \$'000	2007 \$'000
Current assets		
Trade and other receivables	278	684
Non-current assets		
Property, plant and equipment	1,450	1,092
Oil and gas properties	22,963	14,776
Exploration and evaluation costs	-	-
	24,414	15,868
	24,692	16,552
Current liabilities		
Payables	1,433	31
Net investment in joint venture operations	23,259	16,521

The above assets cover the following areas of interest:

Project	No. of Producing Wells at end 2008	Net Revenue interest	Net Working interest
Motherlode Phase I	5	68%-75%	100%
Motherlode Phase II	12	7.75%-10%	12.5%
Motherlode Phase III	Development leases	38.25%	50%
Palo Pinto – Possum Kingdom	9	77%-79%	100%
Total	26		

NOTES TO THE FINANCIAL STATEMENTS (Cont)**For The Year Ended 31 December 2008****32. EVENTS SUBSEQUENT TO BALANCE SHEET DATE**

In February the Company's gas hedge for 5,000 MMBtu per month of natural gas at a minimum price of US\$7.75 expired, and in March one of the oil hedges (1,000 Bbls per month at a minimum of US\$90 Bbl) also expired. There were no settlement amounts paid or received on expiry of these hedges. Any settlement amounts were paid on a monthly basis during the hedge term. The expired hedges accounted for approximately 20% of the derivative revenue. There remains one further oil hedge (1,000 Bbls per month at a minimum of US\$95 Bbl) which expires in May 2010. For further information in relation to the hedges please review to the Review of Operations section in this Annual Report.

There were no other material events arising subsequent to 31 December 2008 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.

33. CONTINGENCIES

There were no known contingencies at year end.

34. SHARE BASED PAYMENTS

There were no share based payments made during the financial year.

Expenses arising from share-based transactions	GROUP		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Options issued to employees/consultants	-	44	-	44

Input parameters for the fair value of the options issued in the current and prior years are detailed in note 18-Reserves.

35. DIVIDENDS

There were no dividends paid or payable in respect of the current or previous financial period.

DIRECTORS' DECLARATION

The directors of the Company declare that:

- 1 the financial statements and notes, as set out on pages 24 to 65, are in accordance with the Corporations Act 2001 and:
 - a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - b) give a true and fair view of the financial position as at 31 December 2008 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 given the declarations required by s295A.
- 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 18 to 22 of the Directors' Report comply with Section 300A of the Corporations Act 2001.

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



A. Bajada
Chairman

West Perth, Western Australia
31st March 2009



A. Short
Managing Director



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADVANCE ENERGY LIMITED

We have audited the accompanying financial report of Advance Energy Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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 Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing 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 judgement, 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 opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion the financial report of Advance Energy Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(i) in the consolidated financial report which indicates that Advance Energy Limited incurred a net loss of \$835,000 during the year ended 31 December 2008. The company will be required to seek additional funding through debt, equity or other means to continue its oil and gas production. These conditions, along with other matters as set forth in Note 1(i), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore whether it will be able to realise its assets and liabilities in the normal course of business at the values carried in the balance sheet.

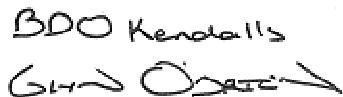
Report on the Remuneration Report

We have audited the Remuneration Report included within the Directors' Report for the year ended 31 December 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Advance Energy Limited for the year ended 31 December 2008, complies with section 300A of the Corporations Act 2001.

BDO Kendalls Audit & Assurance (WA) Pty Ltd



Glyn O'Brien
Director

Perth, Western Australia and 31 March 2009

TWENTY LARGEST SHAREHOLDERS

SHAREHOLDERS (Fully Paid Ordinary) as at 30 March 2009

NUMBER OF SHARES

%

Fay Holdings Pty Ltd	13,476,740	11.344
Bardev Pty Ltd	7,167,187	6.033
Sealblue Investments Pty Ltd	6,880,000	5.791
Formaine Pty Ltd	5,767,857	4.855
Accord Investment Corporation Pty Ltd	5,320,885	4.479
Spartan Nominees Pty Ltd	4,202,144	3.537
Jet Strike Pty Ltd	3,250,000	2.736
Pinewood Holdings Pty Ltd	3,125,000	2.631
Dalveen Pty Ltd	3,083,333	2.595
Beachcraft Pty Ltd	3,010,000	2.534
Short Nominees Pty Ltd	2,946,428	2.480
Always Holdings Pty Ltd	1,790,000	1.507
Robert Paul Martin & Susan Pamela Martin	1,659,489	1.397
Spartan Nominees Pty Ltd	1,600,000	1.347
Mr Roland Holger Berzins & Carol Maree Berzins	1,575,000	1.326
MDM Thie Tjie Hoa	1,482,121	1.248
Citicorp Nominees Pty Ltd	1,407,428	1.185
Auro Pty Ltd	1,391,210	1.171
John Wardman & Associates Pty Ltd	1,302,857	1.097
RPM Super Pty Ltd	1,285,714	1.082
TOP 20 SHAREHOLDERS	71,723,393	60.374
TOTAL ISSUED SHARES	118,798,222	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	10	3,802	0.003
1,001 - 5,000	42	148,082	0.125
5,001 – 10,000	136	1,108,673	0.933
10,001 – 100,000	240	9,474,868	7.976
100,001 and over	122	108,062,797	90.963
Totals	550	118,798,222	100.000

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 30 March 2009:

Shareholder	Number of Shares	Percentage
Bardev Pty Ltd	10,156,165	8.55%
A N Short/Fay Holdings Pty Ltd	16,458,599	13.85%
R P Martin	9,318,211	7.84%
G A Sklenka/Formaine Pty Ltd	6,805,357	5.73%
A J Carew-Reid	7,527,172	6.34%

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	4,000,000
Anndev Pty Ltd	Options	3,000,000
Fay Holdings Pty Ltd	Convertible preference shares	3
North American Energy, Inc	Convertible preference shares	3

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

There are 550 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.

ADDITIONAL SHAREHOLDER INFORMATION (Cont)

By Class	Holders of Options	Number of Options	%
1 – 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	6	200,000	1.03
100,001 and over	13	19,150,000	98.97
	19		
Totals		19,100,000	100.00

By Class	Holders 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	-	-	-
	5		
Totals		9	100.00

5. Marketable parcel

There are 217 Shareholders with less than a marketable parcel as at 30 March 2009.

C. OTHER DETAILS

1. Company Secretary

David Ballantyne.

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
150 Stirling Highway
NEDLANDS Western Australia 6009

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

ADDITIONAL SHAREHOLDER INFORMATION (Cont)

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. Review of operations

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

6. 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.

7. Lease descriptions

All leases and operations are located in the state of Texas in the USA, as at the end of March 2009. A complete list of operating leases follows on the next page.

Martin County

The Company has working leases over approximately 2,720 gross acres and now operates 19 wells in this area. The company maintains a working interest of 100% in Mother Lode 1, 12.5% in Mother Lode 2 and 50% in Mother Lode 3. It has net revenue interests of between 7.75% and 74%, further details of which are supplied on the following master list. Mother Lode 1 operated by Hibernia Resources, LLC, Mother Lode 2 by Endeavour Energy Resources LP, and Mother Lode 3 by Hibernia Resources, LLC and North America Energy, Inc.

Palo Pinto County

The Company has working leases over approximately 1,015 gross acres and now operates 9 wells in this area. The Company maintains a working interest of 100% in these assets, and has net revenue interests of between 75% and 80%. These wells are operated by Hibernia Resources, LLC.

ADDITIONAL SHAREHOLDER INFORMATION (Cont)

Martin County

1 Mother Lode Phase I

API#	Operator	Lease	Well #	Field Name	RRC #	AEPI WI	AEPI NRI	Acreage Held
42-317-34317	HIBERNIA RESOURCES, LLC	CAZARES	1	RK (STRAWN)	36627	1.00000	0.72037	40
42-317-34362	HIBERNIA RESOURCES, LLC	CAZARES	2	RK (STRAWN)	36627	1.00000	0.72076	40
42-317-34369	HIBERNIA RESOURCES, LLC	HULL	1	RK (STRAWN)	36774	1.00000	0.68165	40
42-317-34392	HIBERNIA RESOURCES, LLC	HULL	2	RK (STRAWN)	36774	1.00000	0.68289	40
42-317-34598	HIBERNIA RESOURCES, LLC	GRAHAM	1	SPRABERRY (TREND AREA)	37865	1.00000	0.74137	160
								320

2 Mother Lode Phase II-Totem Prospect

API#	Operator	Lease	Well #	Field Name	RRC #	AEPI WI	AEPI NRI	Acreage Held
42-317-34520	ENDEAVOR ENERGY RESOURCES L.P.	STRAIN "16"	1	SPRABERRY (TREND AREA)	37892	0.12500	0.07875	160
42-317-34687	ENDEAVOR ENERGY RESOURCES L.P.	STRAIN "16"	2	SPRABERRY (TREND AREA)	37892	0.12500	0.07875	160
42-317-34764	ENDEAVOR ENERGY RESOURCES L.P.	STRAIN "16"	3	SPRABERRY (TREND AREA)	37892	0.12500	0.07875	160
42-317-34893	ENDEAVOR ENERGY RESOURCES L.P.	STRAIN "16"	4	SPRABERRY (TREND AREA)	37892	0.12500	0.07875	160
								640

3 Mother Lode Phase II-Key East Prospect

API#	Operator	Lease	Well #	Field Name	RRC #	AEPI WI	AEPI NRI	Acreage Held
42-317-34711	ENDEAVOR ENERGY RESOURCES L.P.	BROWN, PRUDIE "10"	1	SPRABERRY (TREND AREA)	38045	0.12500	0.08584	160
42-317-34749	ENDEAVOR ENERGY RESOURCES L.P.	BROWN, PRUDIE "10-A"	2	SPRABERRY (TREND AREA)	38611	0.12500	0.09894	160
42-317-34519	ENDEAVOR ENERGY RESOURCES L.P.	THOMAS "4"	1	SPRABERRY (TREND AREA)	37590	0.12500	0.09875	160
42-317-34863	ENDEAVOR ENERGY RESOURCES L.P.	THOMAS "5"	1	SPRABERRY (TREND AREA)	38289	0.12500	0.09875	160
42-317-34683	ENDEAVOR ENERGY RESOURCES L.P.	THOMAS "9"	1	SPRABERRY (TREND AREA)	38118	0.12500	0.08574	80
42-317-35188	ENDEAVOR ENERGY RESOURCES L.P.	THOMAS "9"	2	SPRABERRY (TREND AREA)	38118	0.12500	0.08574	80
42-317-35097	ENDEAVOR ENERGY RESOURCES L.P.	WILLIAMS "9"	1	SPRABERRY (TREND AREA)	38882	0.12500	0.08339	80
42-317-35291	ENDEAVOR ENERGY RESOURCES L.P.	WILLIAMS "9"	2	SPRABERRY (TREND AREA)	38882	0.12500	0.08339	80
								960

Martin County**4 Mother Lode Phase III-Greene and North Hampton Prospect**

API#	Operator	Lease	Well #	Field Name	RRC #	AEPI WI	AEPI NRI	Acreage Held
TBD	Hibernia/NAE	Greene	1	TBD	TBD	0.5	0.3825	160
TBD	Hibernia/NAE	North Hampton	1	TBD	TBD	0.5	0.3825	640
								800

5 Possum Kingdom

API#	Operator	Lease	Well #	Field Name	RRC #	AEPI WI	AEPI NRI	
42-363-35293	HIBERNIA RESOURCES, LLC	COLEMAN	1	B.R.A. (CONGL.) SET RANCH	206019	1.00000	0.77709	80
42-363-35482	HIBERNIA RESOURCES, LLC	COLEMAN	2	(CONGL) SET RANCH	214908	1.00000	0.77709	80
42-363-35361	HIBERNIA RESOURCES, LLC	DABNEY	1	(CONGL) POSSUM KINGDOM,	211444	1.00000	0.77709	80
42-363-35483	HIBERNIA RESOURCES, LLC	DABNEY	2	WEST (CONGL.)	214846	1.00000	0.77709	80
42-363-35219	HIBERNIA RESOURCES, LLC	DENO-GRAGG	1	B.R.A. (CONGL.)	199917	1.00000	0.78660	160
42-363-35385	HIBERNIA RESOURCES, LLC	DENO-GRAGG	2	B.R.A. (CONGL.) PICKWICK	214151	1.00000	0.78660	80
42-363-35526	HIBERNIA RESOURCES, LLC	DENO-GRAGG	3	(CONGLOMERATE)	221245	1.00000	0.78660	80
42-363-35295	HIBERNIA RESOURCES, LLC	FRANCIS	1	B.R.A. (CONGL.)	206021	1.00000	0.78660	175
42-363-35369	HIBERNIA RESOURCES, LLC	GRAGG, P. K.	1	B.R.A. (CONGL.)	212130	1.00000	0.78660	200
								1015