www.advanceenergyltd.com.au

Suite 4, 16 Ord Street
West Perth, Australia
PO Box 1779
West Perth 6872

tel: 08 9486 1122
fax: 08 9486 1011
ACN 111 823 762

ADVANCE ENERGY LIMITED

ACN 111 823 762

QUARTERLY REPORT

30 SEPTEMBER 2009

OVERVIEW

Advance Energy Limited, ("Advance" or "The Company") is pleased to present the following highlights for the quarter ended 30 September 2009:

- $7.75m in new funding was invested in the Company through the issue of $2.5m in equity and $5.25m in unlisted convertible notes.
- Execution of a Purchase and Sale Agreement to acquire a controlling interest in the ten well Martin West Project. The project had previously reported revenue of US$54,000 net to Advance with significant potential for short and medium term enhancement. In the last month it has reported US$70,000 in revenue net to Advance, due in part to the increase in oil and gas prices.
- The Company sold its interests in the Mother Lode II Project for US$2.015m.
- Minor enhancement activities including an acid clean up for Hull#1 & 2 and Francis#1 wells.
- Appointment of Paul Berresford as a Non-Executive Director of the Company.

OPERATIONS

General

During the Quarter the Company determined the pricing for goods and services had fallen in line with current oil and gas prices and therefore recommenced development activities on these assets. The company is currently preparing for an aggressive work over program for its Motherlode projects that will start in the 4th Quarter of 2009.

Mother Lode Phase 1 Project

During the Quarter the Hull #1 and Hull# 2 were acidised and new pumps were run in both wells. This treatment was successful in doubling the production from this unit. At the time of this report, four of the five wells that make up this project were online and producing a very steady 51 BOEPD net to the Company. The Cazares #2 is currently shut in and will be recompleted in the prolific Wolfcamp line in the 4th quarter

Mother Lode Phase II Project

The Company's interests in the Mother Lode II project were sold with an effective date of 30 June 2009. Consequently, no revenue was attributable for the Quarter. Further information about the project is shown below.

Mother Lode Phase III Project

No development on the Mother Lode III project was undertaken during the quarter. The North Hampton and Greene prospects are currently tabled to be drilled in the first half of 2010. As per prior announcements, the two prospects could yield up to 22 drillable wells and could have net 2P reserves as high as 1,105 MBOE.

Possum Kingdom Project

Production from the Possum Kingdom project in Palo Pinto County was increased during the quarter by performing a workover on the previously temporarily abandoned Francis #1 well. Production net to Advance at the end of the quarter was in excess of 330 MCFEPD.

The Company is planning the re-entry of an existing wellbore on its PK Gragg lease to test a shallow oil target at 2,000 ft. Should this target not be capable of producing oil or gas, the well will be converted into a saltwater disposal well that will greatly enhance the economics of the Francis #1 well that currently makes 13 BOPD and 100 BWPD.

Development Activities

Advance believes that service costs have bottomed out and as mentioned above are planning numerous workovers designed to increase and normalise the production from its existing assets.

The company continues to evaluate a number of acquisition opportunities, which can now be undertaken with convertible note funding.

ACQUISITIONS AND DIVESTMENTS

Acquisition of Martin West Project

Advance executed a Purchase and Sale Agreement to acquire an operating interest in the Martin West Project in Martin County, Texas for US$2.625m. The project covers 1,600 acres and includes ten producing wells, ten behind pipe development prospects and ten proved undeveloped (PUD) prospects.

At acquisition, the project was producing 48 BOEPD net to Advance and operating cash flows of approximately US$54,000 per month. These cash flows to Advance have increased to US$70,000 per month in the last month due in part to the rise in oil and gas prices. Hibernia Resources, Advance's Permian operator, intends undertaking a production enhancement and a lease operating expense reduction campaign to overcome prior operator neglect, and which will further increase production and profitability.

Advance intends commencing the development of the ten behind pipe prospects in February 2010 with the aim of achieving initial production of 11.5 BOEPD per well, over and above current production levels.

The project was acquired for approximately US$54,000 per BOEPD. Recent comparable transactions in the Permian Basin, including the sale of the Mother Lode II Project (see below) have been at over US$80,000 per BOEPD.

Sale of Mother Lode II Project

During the quarter, Advance completed the sale of its interests in the Mother Lode II project for US$2.015m. The Mother Lode II project is operated by Endeavor Energy LLC and, as a minority interest, Advance had little influence over the timing and extent of development activities.

The Mother Lode II Project was identified as a result of the 250 square miles of 3D seismic acquired as part of the Mother Lode Phase I project. Advance acquired an initial 12.5% working interest in six producing wells and has since participated in the drilling of an additional six wells. Since acquisition, the project delivered net revenues of US$1.77m. Approximately 36% of the $2.7m acquisition and development cost was funded by debt giving a project IRR of approximately 25%.

$1m of the net proceeds were used to reduce the Sterling Bank debt to US$3.68m.

RESERVES

In October Advance published a Corporate Update that included a summary of the Company's reserves and resources post the Martin West and Mother Lode II transactions as detailed below.

Category	Oil (MBO)	Gas (MMCF)
Proved Producing	355.90	1,807.20
Proved Behind Pipe/ Non Producing	331.40	805.20
Proved Undeveloped	639.49	1,837.30
Total Proved (1P)	1,326.30	4,449.70
Probable	670.70	1,436.80
Total Proved and Probable (2P)	2,087.49	5,886.50
Possible	118.40	516.80
Total Proved Probable and Possible (3P)	2,205.89	6,403.30

CORPORATE

Convertible Note and Equity Funding

The Company completed the placement of 31,250,000 shares at $0.08 per share to raise $2,500,000 before costs.

On execution of the Purchase and Sale Agreement to acquire an operating interest in the Martin West Project, Advance completed the issue of 5,000,000 $1.00 unlisted convertible notes to raise $5,000,000 before costs. Convertible Notes are issued for a three-year term, pay 12% interest quarterly in arrears and are convertible at the greater of $0.08 or 70% of the volume weighted average price of shares traded in the thirty days immediately prior to conversion (30 day VWAP).

During the quarter, the Company also completed the placement of $250,000 unlisted convertible notes. These notes were issued for a term of 18 months and on similar interest and conversion terms to the above notes.

Issue of Listed Convertible Notes

The Company issued a Notice of Meeting for a General Meeting for shareholders to approve the issue of up to 10,000,000 $1.00 unlisted convertible notes and up to 20,000,000 listed convertible notes. The meeting was held on 13th October 2009 and all resolutions were passed.

Off Market Takeover of Target Energy Ltd

The off market takeover of Target Energy Ltd by Blaze Asset Pty Ltd expired on 17th July 2009. At that time, Blaze had received acceptances from 5.83% of Target Energy Ltd shareholders and has issued 5,354,098 shares.

Appointment of Paul Berresford to the Board

Mr Paul Berresford was appointed to the Board as a Non-Executive Director on 14th September 2009. Mr Berresford has over 25 years experience in Public Practice and the Financial Services Industry. He is currently a Director of Optimus Financial Group Pty Ltd which undertook a nine-month due diligence on Advance Energy Ltd culminating in the placement of $2.5m in equity and $5m in unlisted convertible notes by Optimus and its clients.

For further information contact:

Mr Anthony Short (Managing Director) or Mr David Ballantyne (Company Secretary)

Telephone: 08 9486 1122
Facsimile: 08 9486 1011

The technical information in this report has been provided by Embry Canterbury, BSc (Petroleum Engineering), SPE. Mr Canterbury has more than 13 years of relevant experience in the practice of petroleum engineering and operations. Mr Canterbury consents to the inclusion in this report of the information in the form and context in which it appears.

Advance Energy Limited is focused on the acquisition and development of oil and gas producing assets in Texas USA. The company aims to acquire assets with a combination of debt and equity that have current production and cash flow and to enhance production and cash flow through the further development of these assets. Once a property has reached its full productive potential and/or has achieved economic payout to Advance Energy, the Company looks to on sell all or part of its interest. It is the aim of the Company to develop a portfolio of assets which will be developed and traded to maximise returns on funds invested.

Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Advance Energy Limited

ACN	Quarter ended ("current quarter")
111 823 762	30 September 2009

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date (9 months) $A'000
1.1	Receipts from product sales and related debtors	194	1,939
1.2	Payments for (a) exploration and evaluation		
	(b) development	(14)	(269)
	(c) production	(84)	(1,181)
	(d) administration	(925)	(1,086)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	4	7
1.5	Interest and other costs of finance paid	(177)	(758)
1.6	Income taxes paid		
1.7	Other (provide details if material)		
	Net Operating Cash Flows	(1,003)	(1,349)
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a)prospects		
	(b)equity investments		
	(c)other fixed assets		
1.9	Proceeds from sale of: (a)prospects	2,309	2,309
	(b)equity investments		
	(c)other fixed assets		
1.10	Loans to other entities	(529)	(529)
1.11	Loans repaid by other entities		
1.12	Other (provide details if material) Asset Sale Costs	(441)	(736)
	Net investing cash flows	1,339	1,044
1.13	Total operating and investing cash flows (carried forward)	336	(305)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	336	(305)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	2,500	2,872
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	5,250	5,250
1.17	Repayment of borrowings	(2,004)	(2,665)
1.18	Dividends paid		
1.19	Other : Reduction MTM	(328)	(1,413)
	Other Capital Raising Costs	(428)	(540)
	Net financing cash flows	4,990	3,504
	Net increase (decrease) in cash held	5,326	3,199
1.20	Cash at beginning of quarter/year to date	219	2,448
1.21	Exchange rate adjustments to item 1.20	(140)	(242)
1.22	**Cash at end of quarter**	5,405	5,405

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter $A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	141
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

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Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

During the period the Company issued 6,319,500 shares for each share received by the Company's Joint Venture Company Blaze Asset, in the take over attempt of Target Energy Limited as per the take over documents previously submitted.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities	2,900	2,900
3.2	Credit standby arrangements - line of credit	US$40 mil*	US$3.68 mil

* This facility is held with Sterling Bank in the US. It bears interest at US Prime plus 1% and is secured against the Group's oil and gas properties. The facility was renewed in March 2009 for a further three year period.

Estimated cash outflows for next quarter

		$A'000
4.1	Exploration and evaluation	-
4.2	Development	200
	Total	**200**

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter $A'000	Previous quarter $A'000
5.1	Cash on hand and at bank	5,374	146
5.2	Deposits at call	1	43
5.3	Bank overdraft		
5.4	Other (provide details): Security deposit	30	30
	Total: cash at end of quarter (item 1.22)	5,405	219

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	Mother Load 2	Working Interest	12.5%	-
6.2	Interests in mining tenements acquired or increased				

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	**Preference +securities** *(description)*	9	unquoted		
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	**+Ordinary securities**	156,367,722	156,367,722		Fully paid
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	37,569,500	37,569,500		Fully Paid
7.5	**+Convertible debt securities** *(description)*	9,550,000	Unquoted, 11% and 12% coupon, 18 month terms, various expiry dates		
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-			
7.7	**Options** *(description and conversion factor)*	19,350,000	-	*Exercise price* various	*Expiry date* various
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	**Debentures** *(totals only)*				
7.12	**Unsecured notes** *(totals only)*				

+ See chapter 19 for defined terms.

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).

2 This statement does /~~does not~~* *(delete one)* give a true and fair view of the matters disclosed.

Sign here: Date: ...30 October 2009......
(~~Director~~/Company secretary)

Print name: David Ballantyne..........................

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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