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ADVANCE ENERGY LIMITED

ACN 111 823 762

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2009

CONTENTS

CORPORATE DIRECTORY

Directors:	
Chairman	Alex Bajada
Managing Director	Anthony Short
Non Executive Directors	Gordon Sklenka Paul Berresford Kip Plankinton
Company Secretary	David Ballantyne
Registered & Principal Office	16 Ord Street WEST PERTH WA 6005 Telephone: + 618 9486 1122 Facsimile: + 618 9486 1011
Postal Address	P.O. Box 1779 WEST PERTH WA 6872
Auditors	BDO Audit (WA) Pty Ltd 38 Station Street SUBIACO WA 6008
Solicitors - Perth	Hardy Bowen 28 Ord Street WEST PERTH WA 6005
Website Address	www.advanceenergyltd.com.au
Stock Exchange Listings	Advance Energy Ltd shares are listed on the Australian Stock Exchange under the code AVD
Share Registry	Advanced Share Registry Services 150 Stirling Hwy Nedlands WA 6009

CHAIRMAN'S LETTER

Dear Shareholder

2009 began in an environment of great uncertainty with energy prices significantly below the highs experienced in 2008. As a result, drilling costs began to fall and opportunities for acquiring production through acquisition became more cost effective. Advance therefore deferred all unnecessary development, including drilling and workovers, until oilfield services costs had bottomed out. Advance began the year by participating in an off-market takeover of Target Energy Ltd - a company that was considered to be undervalued. The takeover attempt was ultimately unsuccessful but the process highlighted the quality of Advance's assets and its significant reserves.

In June 2009, Advance executed a funding agreement with Optimus Financial comprising a A$2.5m placement of shares at A$0.08 per share and a A$5m placement of unlisted convertible notes. Advance was already undertaking due diligence on a number of potential acquisitions and the convertible note funds were to be drawn down on the execution of a Purchase and Sale Agreement (PSA) to acquire a new producing property.

In September 2009, Advance executed a PSA to acquire a controlling interest in the ten-well Martin West project in Martin County Texas for US$2.625m. Additional interests were acquired in November 2009 bringing the Company's working interests for each well up to between 82-90%. The project was cash flow positive from acquisition and has significant low-cost development potential as well as ten proved undeveloped prospects. The project was acquired at significantly below the price of comparable transactions and production has already been significantly enhanced through the optimisation of surface facilities.

During the second half of the year, Advance completed the sale of its second project- Mother Lode II for US$2.0m and strengthened its balance sheet by the issue of A$6.65m in five-year listed convertible notes. These listed notes replaced A$4.3m in short-term unlisted notes and a significant amount of unsecured debt removing the majority of current liabilities from the Company's balance sheet.

Plans for the first three Martin West workovers were completed by the end of the year and these commenced early in 2010. Your Company plans to complete the remaining seven behind pipe workovers and to increase production to over 200 barrels of oil equivalent per day (BOEPD) before focusing on proved undeveloped drill prospects. This development activity will enhance the production and reserves and consequently the market value of the Company's assets. This value will be unlocked by ongoing cash flow of the assets or by their sale once mature.

I would like to thank those who have contributed to the Company's achievements, especially my fellow directors, staff and our partners in North America. I would also like to thank all the shareholders who have had faith in the management and vision of the Company.

Alex Bajada
Chairman
30th March 2010

REVIEW OF OPERATIONS

1. Corporate overview and strategy

Operational Overview

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

In the year ending 31 December 2009, the company posted an audited loss before interest, depreciation/depletion and tax of A$1.509m. The year began with considerable uncertainty in the global economy and with commodity prices that were significantly below those of the previous year. At the beginning of 2009, drilling costs were declining and continued to do so until the second half of the year. In September, the Company acquired an asset with excellent development potential which is expected to increase cash flow significantly. At the end of the year, the Company has also eliminated the majority of current interest-bearing liabilities from its balance sheet by the issue of listed convertible notes.

Divestments

Mother Lode Phase II

In September 2009, the Company sold its interests in the Mother Lode Phase II project for US$2.015m. Advance acquired the interests comprising the Mother Lode II project between 2006 and 2007 and participated in the drilling of six additional wells. Since acquisition, the project delivered revenues of US$1.77m net to Advance. Approximately 36% of the US$2.7m acquisition and development cost was funded by debt giving a project IRR of approximately 25%.

Acquisitions

Martin West

The Company acquired operating interests in the ten-well Martin West project in Martin County, Texas for a total of US$2.816m. It now has an average working interest of 84% in eight of the wells and 89% in the remaining two wells. The project was acquired for less than US$50,000 per barrel of oil equivalent per day (BOEPD) and production has since been enhanced through surface optimisation.

The Martin West project has ten proved behind pipe development cases as well as ten proved developed producing prospects.

Enhancement activities

In light of falling drilling costs, the Company deferred all non-essential development activities focusing instead on workovers and minor enhancements for the majority of the year.

REVIEW OF OPERATIONS (CONTINUED)

Mother Lode Phase 1 Project, Martin County, Texas

The operator, Hibernia Resources LLC, undertook acid clean ups of the Hull 1 and 2 wells and commenced a work-over of the Cazares#2 well.

Mother Lode Phase II Project, Martin County, Texas

The Williams 9-2 well, completed in late 2008, was put on production in early 2009. Additional minor enhancements were undertaken prior to marketing and eventually selling the project in September 2009.

Mother Lode Phase III Project, Martin County, Texas

No development activities were undertaken on the Mother Lode Phase III project. Advance's co-operator, North American Energy LLC sold its interests to Endeavor Energy LLC.

Possum Kingdom Project, Palo Pinto County, Texas

Advance completed workovers of the Deno Gragg#3 and Francis#1 wells.

Martin West Project, Martin County, Texas

Since closing the acquisition of the Martin West project in October 2009, Advance has undertaken a program of surface optimisation and lease operating expense reduction. This has included the repair of separation facilities and the replacement of rod strings on some wells that have resulted in an increase in the gross gas production from 100 thousand cubic feet of gas per day (MCFPD) to over 200 MCFPD.

The following table summarises the difference between the 2009 activity and the prior year.

2008 versus 2009 Operational Comparison

	2008	2009
Net Gas Production (Mcf)	213,311	112,169
Net Oil Production (Bbls)	21,230	20,906
Net Revenue (US$)	$4,373,835	$1,911,611
Workovers Performed	8	3
Acquisitions (US$)	$4,480,000	$2,816,000
Divestments (US$)	$2,000,000	$2,015,000

Incorporation of Advance Wolfberry, Inc

In October 2009 the Group incorporated Advance Wolfberry, Inc as a wholly owned subsidiary of Advance Energy Ltd.

Equity Issue

As part of a major funding agreement with Optimus Financial, the Company issued 31,250,000 shares at A$0.08 to raise A$2.5m before the costs of the placement.

Unlisted Convertible Note Issue

The Company issued A$5,250,000 in unlisted convertible notes paying interest at 12% per annum, A$250,000 of these notes were issued for a term of 18 months and the remaining

REVIEW OF OPERATIONS (CONTINUED)

A$5,000,000 for a term of 36 months. The notes are convertible at any time after 18 months at the lower of A$0.08 or a 30% discount to the volume weighted average price (VWAP) of shares in the 30 days prior to conversion. Subscription for A$5,000,000 was dependent on Advance executing a Purchase and Sale Agreement (PSA) to acquire a new producing property and was drawn down shortly after executing the PSA to acquire the Martin West project.

Listed Convertible Note Issue

In December 2009, the Company issued 6,650,000 A$1.00 listed convertible notes (AVDG) pursuant to a prospectus. 4,300,000 of the notes issued replaced A$4,300,000 in unlisted notes held by a UK-based investor. The Listed Convertible Notes have a coupon of 9.5% per annum payable quarterly and are convertible at the greater of A$0.08 per share or 85% of the volume weighted average price (VWAP) of shares 30 days before conversion. Note holders are able to convert on 31 December or 30 June each year from 31 December 2011. Advance has subsequently announced its intention to increase the coupon to 11.5%

Sterling Bank

Advance has repaid US$80,000 of the principal of its credit facility per month and the balance has been reduced to US$3.45m.

Director Appointments

Mr Kip Plankinton was appointed as a Non-Executive Director on 9 April 2009 and Mr Paul Berresford appointed as a Non-Executive Director on 14 September 2009.

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://asx.ice4.interactiveinvestor.com.au/ASX0701/Corporate%20Governance%20Principles/EN/

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;	

CORPORATE GOVERNANCE (Continued)

COMPLIANCE WITH ASX CORPORATE GOVERNANCE RECOMMENDATIONS (Continued)

	• 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.	Yes
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

CORPORATE GOVERNANCE (Continued)

COMPLIANCE WITH ASX CORPORATE GOVERNANCE RECOMMENDATIONS (Continued)

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.

CORPORATE GOVERNANCE (Cont)

The Managing Director

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

Role and responsibility of management

The role of management is to support the managing director and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.
Management is responsible for reporting all matters which fall within the Materiality Threshold at first instance to the managing director or if the matter concerns the managing director then directly to the chairman or the lead independent director, as appropriate.

Relationship of Board with management

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

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

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

Council Principle 2

Structure the board to add value

The Company presently has one executive director, three non-executive directors 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. Of the non executive directors, two directors are independent in accordance with Council Principle 2. 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 best served by a mix of independent directors and directors who have a vested interest in the Company. The Board intends to reconsider its composition as the Company's operations evolve.

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

CORPORATE GOVERNANCE (Cont)

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.

Council Principle 4:

Safeguard integrity in financial reporting.

The Company's Managing Director and Chief Financial Officer (or equivalent) report in writing to the Board that the consolidated financial statements of the Company and its controlled entities pursuant to section 295 of the Corporations Act 2001 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 established an audit committee believing that the Company's financial affairs and related matters warrant its establishment. The audit committee is comprised of two non executive directors and an invited member. The chairman of the committee is not the chairman of the Board and is independent. The chairman and the invited member have the requisite financial skills required by best practice. The audit committee fulfils its role 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.

CORPORATE GOVERNANCE (Cont)

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.

Company's website

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

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

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

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.

CORPORATE GOVERNANCE (Cont)

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. The Board may request that the audit committee may fulfil some of the roles reserved for a risk management committee on an ad hoc basis.

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. The Board may request that the audit committee may fulfil some of the roles of the remuneration committee on an ad hoc basis.

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (Group) for the year ended 31 December 2009.

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
P. Berresford (Appointed 22 September 2009)
K. Plankinton (Appointed 9 April 2009)

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 2009 after income tax amounted to $3.926 million (2008: loss $0.835 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.

DIRECTORS' REPORT (Cont)

Significant changes in the state of affairs

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

	2009	2008
a) An increase in:		
- Issued share capital	2,855	3,664
-		
b) An increase/(decrease) in the debt structure as follows		
- Convertible notes	7,600	(3,773)
- Loans	(3,131)	3,658
- Bank finance	(3,928)	816
c) Acquisition of assets and development costs in Texas, USA net of depletions and depreciation	2,715	8,624
d) An increase in Mark to Market position as follows		
- Derivative asset	77	1,310
- Mark to Market calls	-	1,213
- Derivative gain	-	943
e) Profit(loss) on sale of oil and gas properties	(268)	813

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$3.498 million. This represents a net reduction in the year of US$1.902. 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

The Company undertook workovers of the Holt#5 and Holt#6 wells in the Martin West project and of the Cazares#2 well in the Motherlode I project. The operator was only able to complete and stimulate the Upper Spraberry in the Holt#5 well due to severe mechanical and hole conditions resulting from prior operator's completion. The well was put online on February 10th and as of March 8th was making 15-20 BOPD and 10 MCFPD compared to 3 BOPD and 5 MCFPD in January 2010. The operator recompleted and stimulated the Holt#6 in the Upper Wolfcamp and Dean in February 2010. The well was put on pump in early March and has produced over 11 BOPD plus gas with a further 5,000 barrels of frac fluid to recover. The Cazares#2 well in the Mother Lode I project was recompleted in the Lower and Upper Wolfcamp in early 2010. The well is currently recovering 2 barrels of oil and 85 barrels of water and frac fluid per day.

DIRECTORS' REPORT (Cont)

Likely developments

At the date of this report, the Directors had resolved to increase the coupon on the listed convertible notes (AVDG) to 11.5% and to market a second tranche. Funds raised will be used to accelerate development of the Martin West project including the remaining eight behind pipe workovers yet to be undertaken. Depending on the level of applications, the Company may elect to retire the Sterling Bank facility (currently drawn down to US$3.485m) thereby removing all restrictions on the free cash flow produced by the secured assets.

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 Mining 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, Victoria Petroleum NL, 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 and 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.

Other Current directorships

Kilgore Oil and Gas Ltd, Vector Resources Limited.

Other directorships within the last three years

Odin Energy Ltd, Victoria Petroleum NL, Regal Resources Ltd, Palace Resources Ltd

DIRECTORS' REPORT (Cont)

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 five other Australian ASX listed public companies in the resources sector.

Other Current directorships

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

Regal Resources Ltd

Mr Paul Berresford –Non Executive Director CA FTIA SSA

Mr Paul Berresford was appointed a Director of Advance Energy Ltd in September 2009. Mr Berresford has over 25 years experience in Public Practice and the Financial Services Industry, and previous Director/Company Secretarial roles for ASX listed companies. Mr Berresford is currently a Director of Optimus Financial Group Pty Ltd ("Optimus").

Other Current directorships

NorthWest Properties Limited & Paynes Find Gold Limited

Other directorships within the last three years

None

Mr Kip Plankinton –Non Executive Director

Mr Kip Plankinton was appointed a Director in April 2009. Mr Plankinton is an oil and gas attorney with over 20 years experience in the oil and gas industry. He focuses on energy and natural resource matters with an emphasis on international and domestic oil and gas acquisitions and divestments, oil and gas operational and regulatory issues, oil and gas royalty matters and administrative adjudication. Prior to establishing his own practice in 2006, he served as in-house legal counsel for ExxonMobil, Colorado Interstate Gas Company, Texaco and Marathon Oil Company.

Other Current directorships

None

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 previously worked for a 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 also currently Company Secretary of Kilgore Oil and Gas Limited, Red Sky Energy Limited and Odin Energy Limited.

DIRECTORS' REPORT (Cont)

Meetings of Directors

The number of meetings held by the company's board of directors during the year ended 31 December 2009 and the number of meeting attended by each director including circular resolutions were:

	Board meetings held	Board meetings attended
A. Bajada	11	11
A. Short	11	11
G. Sklenka	11	11
P. Berresford	2	2
K. Plankinton	8	7

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	5,802,144	-	-	-	5,802,144
Anthony Short					
• Indirect	16,458,599	-	-	-	16,458,599
Gordon Sklenka					
• Indirect	6,805,357	-	-	-	6,805,357
Paul Berresford					
• Indirect	-	5,000,000	-	-	5,000,000
Kip Plankinton					
• Indirect	-	-	-	-	-

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
Paul Berresford					
• Indirect	-	-	-	-	-
Kip Plankinton					
• Indirect	-	-	-	-	-

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
Paul Berresford					
• Indirect	-	-	-	-	-
Kip Plankinton					
• Indirect	-	-	-	-	-

DIRECTORS' REPORT (Cont)

Details of the conditions relating to conversion of the Converting Preference Shares are included in note 18.3.

Retirements and Re-elections of directors

There were no director retirements for the year. Mr Gordon Sklenka was re-elected to the Board at the Annual General Meeting.

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.

DIRECTORS' REPORT (Cont)

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.

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 A$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 A$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.

DIRECTORS' REPORT (Cont)

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 A$38,148 to be reviewed annually by the Board;
- Additional consulting fees, inclusive of superannuation, for the year ended 31 December 2008 of A$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' directors and consulting fees.

Mr K Plankinton, Non-executive Director

- Commenced 9 April 2009, no termination date;
- Non Executive Chairman's fees (paid as consulting fees), inclusive of superannuation, for the year ended 31 December 2009 of US$20,000 to be reviewed annually by the Board;

Mr P Berresford, Non-executive Director

- Commenced 14 September 2009, no termination date;
- Non Executive Chairman's fees (paid as consulting fees), inclusive of superannuation, for the year ended 31 December 2009 of A$30,000 to be reviewed annually by the Board;

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 A$2,000 to A$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) month's consulting fee.

C Details of Remuneration

The key management personnel of Advance Energy Limited during the year ended 31 December 2009 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,
Mr K Plankinton	-	Non-Executive Director (Appointed 9 April 2009)
Mr P Berresford		Non-Executive Director (Appointed 22 September 2009)
Mr D Ballantyne	-	Company Secretary

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 2009.

		Short-term employee benefits		Post - employment benefits	Equity				
		Salary, consulting fees $	Bonus $	Superannuation $	Option based payments $	Preference share based payments $	Total $	Remuneration consisting of equity %	Remuneration linked to performance %
Executive directors									
A Short (Managing Director)	2009	220,000	-	-	-	-	220,000	-	-
	2008	220,000	-	-	-	-	220,000	-	-
Non-executive directors									
A Bajada	2009	54,500	-	-	-	-	54,500	-	-
	2008	54,500	-	-	-	-	54,500	-	-
G Sklenka	2009	100,728	-	-	-	-	100,728		-
	2008	100,728	-	-	-	-	100,728		-
K Plankinton	2009	49,904	-	-	-	-	49,904	-	-
	2008	-	-	-	-	-	-	-	-
P Berresford	2009	8,667	-	-	-	-	8,667	-	-
	2008	-	-	-	-	-	-	-	-
Total directors' remuneration	**2009**	**433,799**	**-**	**-**	**-**	**-**	**433,799**	**-**	**-**
	2008	**375,228**	**-**	**-**			**375,228**	**-**	**-**
Other key management personnel									
Lance Camacho (Resigned 6 June 2008)	2009	-	-	-	-	-	-	-	-
	2008	36,335	-	-	-	-	36,335	-	-
D Ballantyne (Appointed January 2008)	2009	36,875	-	-	-	-	36,875	-	-
	2008	62,950	-	-	-	-	62,950	-	-
Total other key management remuneration	**2009**	**36,875**	**-**	**-**	**-**	**-**	**36,875**	**-**	**-**
	2008	**99,285**	**-**	**-**	**-**	**-**	**99,285**	**-**	**-**
TOTAL REMUNERATION	**2009**	**470,674**	**-**	**-**	**-**	**-**	**470,674**	**-**	**-**
	2008	**474,513**	**-**	**-**	**-**	**-**	**474,513**	**-**	**-**

D. Share-based Remuneration

Options

No options were granted to directors and other key management during the year ended 31 December 2009. (2008: Nil)

Convertible Preference Shares

No convertible preference shares were issued during the year ended 31 December 2009. (2008: Nil)

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 was on issue:

Expiry Date	Exercise Price (A$)	Number of shares under option
31 December 2010	$0.25	13,850,000
31 December 2010	$0.40	250,000
TOTAL		14,100,000

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 18.3.

DIRECTORS' REPORT (Cont)

NON-AUDIT SERVICES

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

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;

- None of the services undermine the general principles relating to auditor independence as set out in 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	A$ 6,500 (2008: A$13,424)
BDO Corporate Compliance Services	A$ Nil (2008: Nil)

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 2009 has been received and can be found on page 27.

Rounding of Amounts

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

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

A. Bajada
Chairman

A. Short
Managing Director

West Perth, W.A.
30th March 2010

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Australia

30 March 2010

Advance Energy Ltd
PO Box 1779
WEST PERTH WA 6872

Dear Sirs

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

As lead auditor of Advance Energy Limited for the year ended 31 December 2009, 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 Limited and the entities it controlled during the year.

Glyn O'Brien
Director

BDO Audit (WA) Pty Ltd
Western Australian, Perth

STATEMENTS OF COMPREHENSIVE INCOME
For The Year Ended 31 December 2009

	Notes	Group 2009 $'000	Group 2008 $'000	Parent Entity 2009 $'000	Parent Entity 2008 $'000
Revenue	5	**2,361**	5,071	-	-
Other income	5	**58**	1,157	587	861
(Loss) profit on sale of asset	6	**(268)**	812	-	-
Direct costs attributed to reserves		**(854)**	(1,348)	-	-
Depreciation	7,11	**(364)**	(415)	-	(47)
Depletion of oil and gas properties	7,13	**(949)**	(2,107)	-	-
Employee benefits expense		**-**	(157)	-	(157)
Derivative instruments		**(226)**	-	-	-
Administrative expenses		**(2,580)**	(2,181)	(2,204)	(1,718)
Finance costs	7	**(1,104)**	(1,704)	(838)	(1,154)
Foreign exchange gains/(losses)		**-**	-	(3,986)	3,427
Profit/(Loss) before income tax		**(3,926)**	(872)	(6,441)	1,212
Income tax expense	8	**-**	37	-	-
Profit/(Loss) for the year		**(3,926)**	(835)	(6,441)	1,212
Other comprehensive income					
Exchange differences on translation of foreign operations		**(4,111)**	3,863	-	-
Other comprehensive income for the year, net of tax		**(4,111)**	3,863	-	-
Total comprehensive income for the year		**(8,037)**	3,028	(6,441)	1,212
Profit/(Loss) is attributable to Owners of Advance Energy Ltd		**(3,926)**	(835)	(6,441)	1,212
Total comprehensive income for the year is attributable to Owners of Advance Energy Ltd		**(8,037)**	3,028	(6,441)	1,212
Loss per share					
Basic loss (cents per share)	21	(2.9)	(0.97)	-	-

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

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2009

	Notes	Group 2009 $'000	Group 2008 $'000	Parent Entity 2009 $'000	Parent Entity 2008 $'000
Current assets					
Cash and cash equivalents	9	1,255	2,421	1,078	342
Trade and other receivables	10	434	926	90	648
Other financial assets	10	-	-	417	-
Derivative financial instrument	12	77	1,056	-	-
Total current assets		1,766	4,403	1,585	990
Non-current assets					
Property, plant and equipment	11	443	1,472	-	-
Oil and gas properties	13	18,373	22,963	-	-
Other financial assets	14	988	17	15,862	16,005
Derivative financial instrument	12	-	254	-	-
Total non-current assets		19,804	24,706	15,862	16,005
Total Assets		21,570	29,109	17,447	16,995
Current liabilities					
Trade and other payables	15	383	2,255	300	822
Provisions	16	233	245	-	104
Interest bearing liabilities	17	686	5,985	686	5,985
Other financial liabilities	12	-	1,213	-	-
Total current liabilities		1,302	9,698	986	6,911
Non-current liabilities					
Interest bearing liabilities	17	15,773	9,734	11,966	2,000
Total non-current liabilities		15,773	9,734	11,966	2,000
Total Liabilities		17,075	19,432	12,952	8,911
Net Assets		4,495	9,677	4,495	8,084
Equity					
Issued share capital	18	15,547	12,692	15,547	12,692
Reserves	19	333	4,444	1,972	1,972
Accumulated losses	20	(11,385)	(7,459)	(13,024)	(6,580)
Total Equity		4,495	9,677	4,495	8,084

The Statements of Financial Position should be read in conjunction with the accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS
For The Year Ended 31 December 2009

	Notes	Group 2009 $'000	Group 2008 $'000	Parent Entity 2009 $'000	Parent Entity 2008 $'000
Cash flows from operating activities					
Receipts from customers		2,853	5,666	-	-
Payments to suppliers and staff		(6,044)	(2,595)	(3,276)	(1,492)
Interest received		58	3	58	211
Derivative instruments		(206)	-	-	(918)
Interest and borrowing costs		(1,250)	(1,314)	-	-
Other income		-	(151)	-	-
Net cash provided by/ (used in) operating activities	22	(4,589)	1,609	(3,218)	(2,199)
Cash flows from investing activities					
Purchase of oil and gas assets/properties		(3,511)	(5,415)	-	-
Sale of oil and gas properties		2,298	2,850	-	-
Purchase of plant and equipment		-	(481)	-	165
Net cash inflow/(outflow) from investing activities		(1,213)	(3,046)	-	165
Cash flows from financing activities					
Proceeds from issues of shares		2,500	3,190	2,500	3,190
Capital raising costs		(153)	(95)	(153)	(95)
Proceeds from borrowings		5,465	3,474	5,465	3,474
Repayments of borrowings		(2,804)	(4,449)	(812)	(3,589)
Advances to subsidiary		-	-	(3,447)	(2,276)
Hedging contracts		-	1,213	-	-
Proceeds from repayment of loans		-	-	401	-
Net cash inflows from financing activities		5,008	3,333	3,954	704
Net increase in cash and cash equivalents		(794)	1,896	736	(1,330)
Cash and cash equivalents at the beginning of the financial period		2,421	1,936	342	1,672
Exchange rate changes on cash		(372)	(1,411)	-	-
Cash and cash equivalents at the end of the financial period	9	1,255	2,421	1,078	342

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

STATEMENTS OF CHANGES IN EQUITY

For The Year Ended 31 December 2009

CONSOLIDATED

Period ended 31 December 2009 $'000	Issued Capital	Equity Reserve	Option Reserve	Foreign Currency Translation Reserve	Accumulated losses	TOTAL
Balance at beginning of period	12,692	150	1,822	2,472	(7,459)	9,677
Loss for the period	-	-	-	-	(3,926)	(3,926)
Currency translation on foreign operations	-	-	-	(4,111)	-	(4,111)
Total comprehensive income for half year	-	-	-	(4,111)	(3,926)	(8,037)
Transactions with equity holders in their capacity as equity holders						
Issues of share capital, net of transaction costs	2,855	-	-	-	-	2,855
Balance at 31 December 2009	**15,547**	**150**	**1,822**	**(1,639)**	**(11,385)**	**4,495**

Period ended 31 December 2008 $'000	Issued Capital	Equity Reserve	Option Reserve	Foreign Currency Translation Reserve	Accumulated losses	TOTAL
Balance at beginning of period	9,029	150	1,822	(1,391)	(6,624)	2,986
Loss for the period	-	-	-	-	(835)	(835)
Currency translation on foreign operations	-	-	-	3,863	-	3,863
Total comprehensive income for half 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
Balance at 31 December 2008	12,692	150	1,822	2,472	(7,459)	9,677

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 2009

PARENT ENTITY

Period ended 31 December 2009 $'000	Issued Capital	Equity Reserve	Option Reserve	Accumulated losses	TOTAL
Balance at beginning of period	12,692	150	1,822	(6,583)	8,081
Loss for the period	-	-	-	(6,441)	(6,441)
Total comprehensive income for half year	-	-	-	(6,441)	(6,441)
Transactions with equity holders in their capacity as equity holders					
Issues of share capital, net of transaction costs	2,855	-	-	-	2,855
Balance at 31 December 2009	**15,547**	**150**	**1,822**	**(13,024)**	**4,495**

Period ended 31 December 2008 $'000	Issued Capital	Equity Reserve	Option Reserve	Accumulated losses	TOTAL
Balance at beginning of period	9,029	150	1,822	(7,792)	3,209
Profit for the period	-	-	-	1,212	1,212
Total comprehensive income for half 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
Balance at 31 December 2008	12,692	150	1,822	(6,583)	8,084

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 2009

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements include 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 statements 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 financial statements have 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.

As at 31 December 2009, the Group had net current assets of A$0.464 million (31 December 2008: net current liabilities of A$5.295 million) and net assets of A$4.495 million as at 31 December 2009 (2008: A$9.677 million).

The Group has incurred a net loss after tax for the year ended 31 December 2009 of A$3.926 million (2008: A$0.835 million) and net cash outflow from operating activities of A$4.589 million (2008: inflow A$1.609 million).

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. This was evidenced by the reversal of net current liabilities in 2008 to a net current asset position for 2009. 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 trade profitably, secure additional funding through either the issue of further shares and/or options and 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 2009, the Group successfully raised A$2.5 million (before costs) by way of share placements and net raisings from borrowings of A$2.661 million. The Group also sold its Mother Lode II project in October 2009 for A$2.3 million and applied A$3.5 million of cash resources in strategic acquisitions. At the end of the year, in spite of a net acquisition base during the year, the Group had still been able to reduce its overall debt position.

The Group continues to negotiate 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. This will be further assisted by the improved oil and gas prices anticipated to occur during 2010.

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

NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 31 December 2009

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 nor 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 2009 and the results of all subsidiaries for the year then ended. Advance Energy Limited and its subsidiaries together are referred to in the financial statements 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.

NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 31 December 2009

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.

Change in accounting policy AASB108(28)

The Group has adopted AASB 8 *Operating Segments* from 1 January 2009. AASB 8 replaces AASB 114 *Segment Reporting.* The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in change in the number of reportable segments presented. The segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

Change in Accounting Policy – Presentation of Financial Statements

The Group applies revised AASB 101 *Presentation of Financial Statements* which became applicable as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in the financial statements as of and for the year ended 31 December 2009.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Managing Director as he makes the strategic decisions.

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$.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

(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.

(iii) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised as a separate component of equity.

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

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

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 2009

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 statement of comprehensive income. 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 statement of comprehensive income 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 2009

(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 statement of comprehensive income 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 statement of comprehensive income.

(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.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

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 statement of comprehensive income:

• 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.

- *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.

  (ii) Net investment hedges
  Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

  Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income within other income or other expenses.

  Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

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 estimated useful life for Oil and Gas Properties is 30 years.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

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 2009

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

Cash flows are included the Statement of cash flows 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 January 2009. 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 2009. These are outlined in the table below:

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
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 January 2010
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 January 2010
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 January 2010
AASB 9 (issued December 2009)	Financial Instruments	Amends the requirements for classification and measurement of financial assets	Periods beginning on or after 1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 31 December 2013 year end, the entity has not yet made an assessment of the impact of these amendments.	1 January 2010

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

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

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 US$ 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 Group and Parent's exposure to foreign currency risk at the reporting date was as follows:

Foreign Assets and Liabilities

	Parent entity	
	2009 US$'000	2008 US$'000
Financial assets		
Oil and gas properties	-	-
Intercompany loan	14,640	11,231
Other financial assets	-	-
Total Assets	14,640	11,231
Financial liabilities		
Bank loans	-	-
Other financial liabilities	-	-
Total liabilities	-	-

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

- Parent entity sensitivity

Over the reporting period there have been significant movements in the Australian dollar when compared to other currencies, it is therefore considered reasonable to review sensitivities base on a 10% movement in the Australian dollar. The parent entity's post-tax profit for the year and equity would have been A$123,000 lower/A$101,000 higher (2008: A$1,778,000 lower/A$1,455,000 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.

- Price risk

Over the reporting period there has been significant movement in the price of oil and gas, it is therefore considered reasonable to review sensitivities based on a 10% movement in prices. 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. At 31 December 2009 the Group had a costless collar hedging contract in place for 1,000 barrels of oil per month at a floor price of US$95/barrel. This contract expires on 31 May 2010.

- Group sensitivity

Over the reporting period there has been significant movement in the price of oil and gas, it is therefore considered reasonable to review sensitivities based on a 10% movement in prices. For the Group, at 31 December 2009, if prices had changed by -/+ 10 % with all other variables held constant, post-tax loss and equity for the year would have been A$236,089 lower/higher (2008: A$570,100 lower/higher), mainly as a result of higher/lower revenue from oil and gas sales.

- Parent entity sensitivity

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

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

(vi) Cash flow and fair value interest rate risk

Interest rate risk arises from both short and long-term borrowings and cash at bank. Borrowings issued at variable rates expose the Group and Parent Entity to cash flow interest rate risk. During 2009 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.

As at 31 December 2009 the group had the following variable rate borrowings outstanding:

	31 December 2009		31 December 2008	
	Weighted Average Interest rate %	Balance $'000	Weighted Average Interest rate %	Balance $'000
Bank loans	4.25%	3,806	4.25%	7,734
Net exposure to cash flow interest rate risk		3,806		7,734

(vii) Group sensitivity

At 31 December 2009, 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 A$148,000 lower/higher (2008: A$107,000 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 2009, 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 A$126,000 lower/higher (2008: A$47,000 lower/higher) as a result of interest income and expenses on these financial assets.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

(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 an d 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 intercompany 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, the availability of funding through an adequate amount of committed credit facilities. 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:

Consolidated

The Group has entered into a revolving line of credit with a Stirling Bank of Texas 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$3.485 million had been drawn. The loan facility matures on 31 March 2011.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

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 2009 and are no different to the carrying values.

Group				2009			
	$'000 Within 6 months	$'000 6 Months to 1 year	$'000 Between 1 and 2 years	$'000 Between 2 and 5 years	$'000 Over 5 years	$'000 Total contractual cash flows	$'000 Carrying amount
Financial Liabilities							
Trade creditors and accruals	383	-	-	-	-	383	383
Convertible notes							
Interest bearing borrowings	66	-	5,250	6,650	-	11,900	11,966
	-	-	4,493	-	-	4,493	4,493
Total Financial Liabilities	449	-	9,743	-	6,650	16,776	16,842

Group				2008			
	$'000 Within 6 months	$'000 6 Months to 1 year	$'000 Between 1 and 2 years	$'000 Between 2 and 5 years	$'000 Over 5 years	$'000 Total contractual cash flows	$'000 Carrying amount
Financial Liabilities							
Trade creditors and accruals	1,699	556	-	-	-	2,255	2,255
Convertible notes							
Interest bearing borrowings	27	2,300	2,000	-	-	4,327	4,327
Derivative financial instruments	-	3,658	-	7,734	-	-	11,392
	1,213	-	-	-	-	1,213	1,213
Total Financial Liabilities	2,939	6,514	2,000	7,734	-	7,795	19,187

Company				2009			
	$'000 Within 6 months	$'000 6 Months to 1 year	$'000 Between 1 and 2 years	$'000 Between 2 and 5 years	$'000 Over 5 years	$'000 Total contractual cash flows	$'000 Carrying amount
Financial Liabilities							
Trade Creditors and accruals	300	-	-	-	-	300	300
Convertible Notes	-	-	-	-	-	-	-
	66	-	5,250	6,650	-	11,966	11,966
Interest bearing borrowings	-	-	686	-	-	686	686
Total Financial Liabilities	366	-	5,936	6,650	-	12,952	12,952

Company				2008			
	$'000 Within 6 months	$'000 6 Months to 1 year	$'000 Between 1 and 2 years	$'000 Between 2 and 5 years	$'000 Over 5 years	$'000 Total contractual cash flows	$'000 Carrying amount
Financial Liabilities							
Trade Creditors and accruals	926	-	-	-	-	926	926
Convertible Notes	-						
Interest bearing borrowings	27	2,300	2,000	-	-	4,327	4,327
		3,658				3,658	3,658
Total Financial Liabilities	953	5,958	2,000	-	-	8,911	8,911

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

(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.

(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.

	Note	GROUP		PARENT ENTITY	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
Total borrowings	17	16,459	15,719	12,652	7,985
Less: Cash and cash equivalents	9	(1,255)	(2,421)	(1,078)	(342)
Net debt		15,204	13,298	11,574	7,643
Total equity		4,495	9,677	4,495	8,084
Total capital		19,699	22,975	16,069	15,727
Gearing ratio		77%	58%	72%	49%

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Group As at 31 December 2009	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Derivative financial asset	-	-	77	77

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

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

Reserve estimates

Estimates of recoverable quantities of proven, probable and possible reserves reported include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values and the recognition of deferred tax assets due to changes in expected future cash flows. Reserves are integral to the amount of amortisation charged to the income statement. The Group uses suitably qualified persons to prepare an annual evaluation of proven hydrocarbon reserves compliant with US professional standards for petroleum engineers.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect Advance Energy's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows.
- Depreciation and amortisation charges in the income statement may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of tax benefits.

The carrying amount of these properties at 31 December 2009 was A$18.373 million (2008: A$22.963)

(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.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

(ii) Fair Value of Derivatives

Hedging Instruments

The group has an unrealised derivative instrument asset recorded at 31 December 2009 of A$77,000 (US$70,768) (2008: US$1.31 million) in relation to oil commodity hedges which expire in May 2010. This asset effectively represents the amount that would have been paid to the group as at 31 December 2009 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 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.

(iii) 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 convertible note 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.

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 17. Should these notes not be converted, they will have no effect on equity as they will be repaid. The carrying amount of these convertible notes as at 31 December 2009 was A$11.9 million (2008: A$4.3 million)

(iv) 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 Statement of comprehensive income 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 statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

4. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors as it makes the strategic decisions.

The Group has adopted a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in change in the number of reportable segments presented. The segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker has determined the reporting segments as detailed below.

2009	USA $'000	Australia $'000	Consolidated $'000
Revenues from continuing operations	2,361	-	2,361
Segment result (loss)	(897)	(6,441)	(7,338)
Segment assets	18,168	17,625	35,793
Segment liabilities	(18,459)	(13,180)	(31,639)
Acquisition of plant & equipment, exploration & evaluation and other non-current assets	3,511	-	3,511
Depreciation and amortisation	(1,313)	-	(1,313)

2008	USA $'000	Australia $'000	Consolidated $'000
Revenues from continuing operations	5,071	-	5,071
Segment result (loss)	824	1,210	2,034
Segment assets	28,120	16,996	45,116
Segment liabilities	(27,082)	(8,911)	(35,993)
Acquisition of plant & equipment, exploration & evaluation and other non-current assets	5,415	-	5,415
Depreciation and amortisation	2,474	48	2,522

Segment revenue reconciles to total revenue from the continuing operations as follow:

	Consolidated	
	2009 $'000	2008 $'000
Total segment revenue	2,361	5,071
Intersegment eliminations	-	-
Other revenues	58	1,157
Total revenue from continuing operations (Note 5)	2,419	6,228

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

1) Segment results

Segment result reconciles to total comprehensive income as follows:

	Consolidated 2009 $'000	Consolidated 2008 $'000
Total segment result	(7,338)	2,034
Intersegment eliminations	(699)	994
Foreign exchange elimination	4,111	(3,863)
Total result	(3,926)	(835)

2) Segment assets

The amounts provided to the board with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	Consolidated 2009 $'000	Consolidated 2008 $'000
Segment assets	35,793	45,116
Intersegment eliminations	(14,223)	(16,007)
Total assets	21,570	29,109

3) Segment liabilities

The amounts provided to the board with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' liabilities are reconciled to total assets as follows:

	Consolidated 2009 $'000	Consolidated 2008 $'000
Segment liabilities	(31,639)	(35,993)
Intersegment eliminations	14,564	16,561
Total liabilities	17,075	19,432

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

5. REVENUE FROM CONTINUING OPERATIONS

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Oil and gas sales	2,361	5,071	-	-
Other income	-	3	-	650
Derivative income	-	943	-	-
Other income	58	211	587	211
Total revenue from continuing operations	2,419	6,228	587	861

6. LOSS/ (PROFIT) ON SALE OF ASSETS

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cost of assets	3,159	1,650	-	-
Depletion	(593)	(41)	-	-
Proceeds from sale	(2,298)	(2,421)	-	-
Loss/(Profit) on sale of assets	268	(812)	-	-

7. EXPENSES

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Loss from continuing operations before income tax has been determined after				
(a) Depreciation and depletion				
Depreciation of plant and equipment	364	415	-	47
Depletion of oil and gas properties	949	2,107	-	-
Total depreciation and depletion	1,313	2,522	47	47
(b) Lease payments				
Minimum lease payments - operating lease				
(c) Employee/consultant benefit expense				
Directors/key management expense	471	475	421	475
	-	-	-	-
Share/option based payments				
(d) Finance costs				
Interest on borrowings	1,104	1,704	838	1,154
Borrowing costs	-	-	-	-
Total Finance costs	1,104	1,704	838	1,154
(e) Exploration costs written off	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

8. INCOME TAX

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
a) Income tax (benefit)/expense				
Current tax charge	-	-	-	-
Deferred tax relating to origination and reversal of temporary differences	-	(37)	-	-
Income tax expense/(benefit) reported in the Income Statement	-	(37)	-	-
b) Deferred tax (benefit)/expense				
Decrease/(increase) in deferred tax asset	-	-	-	-
(Decrease)/increase in deferred tax liability	-	(37)	-	-
	-	(37)	-	-

The prima facie income tax expense/(income)on pre-tax accounting loss from operations reconciles to the income tax expense/(income) in the financial statement as follows:

	GROUP 2009 $'000	GROUP 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
c) Numerical reconciliation of income tax expense to prima facie tax payable				
Accounting loss before tax	(3,926)	(872)	(6,441)	1,212
At statutory income tax rate of 30%	(1,178)	(262)	(1,932)	364
Expenditure not allowable for tax purposes	342	(73)	1,374	(73)
Deferred Tax Assets not brought to account	902	(291)	558	(291)
Foreign exchange movements	(66)	589	-	-
Income tax expense/(benefit)	-	(37)	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

	GROUP 2009 $'000	GROUP 2008 $'000	PARENT ENTITY 2009 $'000	PARENT ENTITY 2008 $'000
d) Unrecognised deferred tax balances Deferred tax assets/(liabilities) recognised and un-recognised:				
Tax losses:				
Australian tax losses - revenue	2,323	1,818	2,323	1,818
Foreign tax losses - revenue	397	-	-	-
Temporary differences				
Australian – other	8	(507)	8	(507)
Foreign subsidiaries – Capitalised exploration and evaluation	(6,247)	-	-	-
Foreign subsidiaries - Other	(51)	(37)	-	-
Total unrecognised	(3,570)	1,274	2,331	1,311

The franking balance as at the end of the year was nil (2008:nil)

Advance Energy Ltd has tax losses arising in Australia of A$7,992,643 (2008: A$6,060,476) 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 2009

9. CASH AND CASH EQUIVALENTS

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash at bank	1,255	2,421	1,078	342

Cash at bank earned a floating rate of interest of between 3% and 3.75% (2008: between 6.5% and 8.5%).

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 statements of cash flows as follows:

Balances as above	1,255	2,421	1,078	342
Balance as per statements of cash flows	1,255	2,421	1,078	342

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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Trade receivables	36	278	36	-
Other receivables	357	-	-	-
Other loans	-	-	401	-
Other receivables	41	648	70	648
	434	926	507	648

a) Impaired trade receivables

As at 31 December 2009 there were no impaired trade receivables for the Group or the parent entity. This was the same as at 31 December 2008.

b) Past due but not impaired

As of 31 December 2009 there were no trade receivables considered to be past due. (31 December 2008: 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

10. TRADE AND OTHER RECEIVABLES (Cont)

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 in 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.

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 are 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.

11. PROPERTY, PLANT AND EQUIPMENT

GROUP	Plant and equipment $'000	Office equipment $'000	Total $'000
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
Year ended 31 December 2009			
Opening net book value	1,450	22	1,472
Exchange differences	(257)	(6)	(263)
Additions	65	6	71
Disposals	(473)	-	(473)
Depreciation	(357)	(7)	(364)
Closing net book value	428	15	443
At 31 December 2009			
Cost	1,346	41	1,387
Accumulated depreciation	(918)	(26)	(944)
Net book value	428	15	443

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

PARENT	Plant and equipment $'000	Office equipment $'000	Total $'000
At 1 January 2008			
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	-	-	-
Year ended 31 December 2009			
Opening net book value	-	-	-
Exchange differences	-	-	-
Additions	-	-	-
Disposals	-	-	-
Depreciation	-	-	-
Closing net book value	-	-	-
At 31 December 2009			
Cost	-	-	-
Accumulated depreciation	-	-	-
Net book value	-	-	-

12 DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets				
Oil & gas hedging	77	1,056	-	-
Total current derivative assets	77	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	-	-
	77	97	-	-

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NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

12 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.

Advance Exploration and Production Inc is counterparty to a number of costless floor and cap contracts at strike prices of US$95, US$105 and US$120. These offsetting contracts have no market to market value. The value of derivative contracts outstanding at 30 December 2009 is outlined below:

Date	Strike (USD$)	Product	Quantity	Market Price (USD$)	Mark to Market (USD$)	Mark to Market (AUD $)
1-31 Dec 09	90	Asian Floor	1,000	15.4001	15,400	16,743
1-31 Jan 10	90	Asian Floor	1,000	10.4783	10,478	11,392
1-28 Feb 10	90	Asian Floor	1,000	10.4866	10,487	11,401
1-31 Mar 10	90	Asian Floor	1,000	10.8669	10,867	11,814
1-30 Apr 20	90	Asian Floor	1,000	11.51	11,510	12,514
1-31 May 10	90	Asian Floor	1,000	12.0261	12,026	13,075
TOTAL					**70,768**	**76,939**

13. OIL AND GAS PROPERTIES

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Oil and gas properties – cost	21,531	25,808	-	-
Less accumulated depletion	(3,158)	(2,885)	-	-
	18,373	22,963	-	-
Movements in carrying amounts are reconciled as follows:				
Opening balance	22,963	14,484	-	-
Acquired during period	3,440	5,552	-	-
Sold during period	(2,566)	(1,425)	-	-
Depletion charge	(949)	(2,107)	-	-
Foreign exchange difference	(4,513)	6,459	-	-
	18,373	22,963	-	-

Oil and gas properties are pledged as security on external bank borrowings. Please refer to Note 17 for details.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

14. OTHER FINANCIAL ASSETS

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Non-Current				
Shares in subsidiaries (Note 26)	-	-	1	1
Prepayments	358	17	-	-
Amounts owed by Blaze Asset Pty Ltd	301	-	-	-
Amounts due from subsidiaries	-	-	15,861	16,004
Other	329	-	-	-
	988	17	15,862	16,005

Amounts due from Blaze Asset Pty include a provision of $297,000 against the gross amount receivable.

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.

15. TRADE AND OTHER PAYABLES

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2008 $'000	2008 $'000
Trade payables	267	1,589	184	155
Other payables	116	666	116	667
	383	2,255	300	822

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

16. PROVISIONS

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Other Payables	233	245	-	104

The Group has recognised a retirement obligation for its oil & gas producing assets and is reflected in the other payables above.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

17. INTEREST BEARING LOANS AND BORROWINGS

	GROUP		PARENT ENTITY	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Current				
Convertible Note – unsecured[1]				
Face value of the note	-	2,300	-	2,300
Accrued interest	-	27	-	27
	-	2,327	-	2,327
Short term loans				
Secured	-	2,900	-	2,900
Unsecured	527	574	527	574
Accrued interest	159	184	159	184
	686	3,658	686	3,658
Bank loan – secured[2]	-	-	-	-
	686	5,985	686	5,985

	GROUP		PARENT ENTITY	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Non-current				
Convertible Notes – unsecured[1]				
Face value of the note	11,900	2,000	11,900	2,000
Interest accrued	66	-	66	-
	11,967	2,000	11,966	2,000
Bank loan – secured[2]	3,807	7,734	-	-
	15,773	9,734	11,966	2,000

1) During the year the Company repaid convertible notes to the value of A$4,300,000. Convertible notes to the value of A$4,300,000 were redeemed simultaneously with the issue of new listed convertible notes to the same value. Further to this an additional A$2,350,500 worth of listed convertible notes were issued and A$5,250,000 worth of convertible notes were issued. The total face value of convertible notes on issue is A$11,900,500. In aggregate these may be converted at the option of the holder into a maximum of 148,756,250 shares before the expiry date, at prices ranging between A$0.10 and A$0.50. The terms of the notes are eighteen (18) months with coupon rates of 12% per annum for the unlisted notes and sixty (60) months with coupon rate of 9.5% for the listed notes.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

17. 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$3.485 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.

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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	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current					
Floating charge					
Cash and cash equivalents	9	1,255	2,421	1,078	342
Trade and other receivables	10	434	926	507	648
Derivative financial instrument	12	77	1,056	-	-
Total current assets pledged as security		1,766	4,403	1,585	990
Non-current					
Floating charge					
Property, plant and equipment	11	443	1,472	-	-
Oil and gas properties	13	18,373	22,963	-	-
Other financial assets	14	358	17	15,862	16,005
Derivative financial instrument		-	254	-	-
Total non-current assets pledged as security		19,275	24,706	15,862	16,005
Total assets pledged as security		21,341	29,109	17,447	16,995

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 2009

18. ISSUED CAPITAL

18.1 Ordinary shares

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
156,367,722 authorised and fully paid ordinary shares (2008: 118,798,222)	15,547	12,692	15,547	12,692
Movements in shares on issue				
Beginning of period	12,692	9,029	12,692	9,029
Shares issued during the period	-	-	-	-
37,569,500 shares issued @ A$0.08	3,006	-	3,006	-
49,499,123 shares issued @ A$0.08	-	3,960	-	3,960
	15,698	12,989	15,698	12,989
Less capital raising costs	(151)	(293)	(151)	(293)
End of year	15,547	12,692	15,547	12,692

(a) Effective 1 July 1998 the Corporations Legislation in place abolished the concepts of authorised capital and par value of shares. Accordingly the Parent does not have authorised capital or par value in respect of issued shares.

(b) Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

(c) At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

18.2 Options

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

2009 Expiry Date	Exercise Price A$	Number at beginning of period	Issued	Exercised	Expired	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	-	-	(5,250,000)	14,100,000

2008 Expiry Date	Exercise Price A$	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

No options have expired or have been cancelled since incorporation.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

18.3 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:

2009 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

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

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

19. RESERVES

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Option reserve (1)	1,822	1,822	1,822	1,822
Foreign currency translation reserve (2)	(1,639)	2,472	-	-
Equity reserve (3)	150	150	150	150
	333	4,444	1,972	1,972
(1) Option reserve				
Opening balance	1,822	1,822	1,822	1,822
Issue of options during period	-	-	-	-
	1,822	1,822	1,822	1,822
(2) Foreign currency translation				
Opening balance	2,472	(1,391)	-	-
Currency translation differences arising during the year	(4,111)	3,863	-	-
	(1,639)	2,472	-	-
(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 2009

19. 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

There were no options issued during the period (2008: NIL).

(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 A$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: A$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 A$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 A$1,108,100 (2008: A$1,108,100) in aggregate had been reflected through the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

20. ACCUMULATED LOSSES

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Accumulated losses at the beginning of the year	(7,459)	(6,624)	(6,583)	(7,792)
Net loss attributable to the members of the parent entity	(3,926)	(835)	(6,441)	1,212
Accumulated losses at the end of the financial year	(11,385)	(7,459)	(13,024)	(6,580)

21. EARNINGS PER SHARE

	GROUP	
	2009 $'000	2008 $'000
Basic earnings/(loss) per share		
Reconciliation of earnings to net loss		
Net loss	(3,926)	(835)
Earnings/(loss) used in the calculation of basic EPS	(3,926)	(835)
	Number	Number
Weighted average number of ordinary shares outstanding during the period used in calculation of basic EPS	134,311,390	85,829,120

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

22. CASH FLOW INFORMATION

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

	GROUP		PARENT ENTITY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Profit (loss) after income tax	(3,926)	(835)	(6,441)	1,273
Non cash flows in profit (loss) from continuing operations				
Depreciation	363	415	-	48
Depletion	950	2,107	-	-
Increase/(decrease) in provisions	-	-	-	-
Other financial assets	-	-	(213)	-
Profit on sale of assets	268	(813)	-	(213)
Loss on sale of asset	-	1	-	-
Interest income not received	-	-	-	650
Derivative financial instrument	20	(1,310)	-	-
Interest accrued not paid	56	-	-	-
Foreign exchange difference	(201)	155	4,461	(3,422)
Changes in assets and liabilities				
Increase/(decrease) in trade creditors and accruals	(2,270)	1,542	(467)	(807)
Increase)/decrease in trade and other receivables	151	384	(558)	272
Increase/(decrease) in deferred tax liabilities	-	(37)	-	-
Cash flows from (used in) operations	(4,589)	1,609	(3,218)	(2,199)

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

23. DEFERRED TAX LIABILITIES

	Production Costs $'000	Total $'000
Movements – Group		
At 1 January 2008	37	37
Charged/(credited) to the income statement	(37)	(37)
As at 31 December 2008	-	-
Charged/(credited) to the income statement	-	-
Foreign exchange difference	-	-
As at 31 December 2009	-	-
Movements – Parent Entity		
At 1 January 2008	-	-
Charged/(credited) to the income statement	-	-
As at 31 December 2008	-	-
Charged/(credited) to the income statement	-	-
As at 31 December 2009	-	-

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

24. INTERESTS IN JOINT VENTURES

The Group has entered into a joint venture through a company incorporated in Australia called Blaze Asset Pty Ltd. The Group has a 50% participating interest in this joint venture entity and is entitled to 50% of its output.

The interest in Blaze Asset Pty Ltd is accounted for in the consolidated financial statements using the equity method of accounting and is carried at cost by the parent entity. Information relating to the joint venture is set out below.

Investment details

	Consolidated	
Unlisted	**2009** **$**	2008 $'000
Blaze Asset Pty Ltd	**1**	-
	1	-

Movements in the carrying amount of the Group's investment in associate

	Consolidated	
Blaze Asset Pty Ltd	**2009** **$'000**	2008 $'000
Balance at the beginning of the half year	**-**	-
Acquisition	**-**	-
Share of unrecognised losses before income tax	**(229)**	
Balance at the end of the year	**(229)**	-

Summarised financial information

The following table illustrates summarised financial information relating to the Group's joint venture:

	Consolidated	
Extract from the joint venture's balance sheet:	**2009** **$'000**	2008 $'000
Current assets	**464**	-
Non-current assets	**-**	-
	464	-
Current liabilities	**-**	-
Non-Current liabilities	**920**	-
	920	-
Net liabilities	**(456)**	-
Share of joint venture's net liabilities	**(228)**	-

	Consolidated	
Extract from the associate's income statement:	**Half year 2009** **$'000**	2008 $'000
Revenue	**229**	-
Net loss	**(456)**	-

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

	Consolidated	
Share of the associate's loss accounted for using the equity method:	**2009 $'000**	2008 $'000
Loss before income tax	**(228)**	-
Income tax expense	**-**	-
Loss after income tax	**(228)**	-

As at 31 December 2009, the investment in the associate is not brought to account as the Company's share of losses exceeds its interests in the associate and as such these further losses are not recognised.

25. SUBSIDIARIES

The Consolidated Financial Statements incorporate the assets, liabilities and results of the following Subsidiaries in accordance with the accounting policy described in Note 1.

Name of Subsidiary	Place of Incorporation	Percentage held 2009	Percentage held 2008
Advance Exploration and Production, Inc	Texas USA	100%	100%
AEPI Midstream, Inc	Texas USA	100%	100%
Advance Wolfberry Inc	Texas USA	100%	-

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

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

Advance Wolfberry, Inc was incorporated in October 2009 with initial issued capital of US$1,000 (A$1,138)

NOTES TO THE FINANCIAL STATEMENTS (Cont)
For The Year Ended 31 December 2009

26. 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.
The amounts charged during the year to related entities and the trading balances outstanding at the 31 December 2009 are detailed below:

Related Entity	Charged to related entity 2009 $'000	Charged to related entity 2008 $'000	Amount owing by related entity 2009 $'000	Amount owing by related entity 2008 $'000	Charged by related entity 2009 $'000	Charged by related entity 2008 $'000	Amount owing to related entity 2009 $'000	Amount owing to related entity 2008 $'000
AAG Management Pty Ltd	-	-	8	28	418	307	39	29
AXG Mining Limited	-	44	-	-	-	11	3	3
Excalibur Mining Corporation Limited	-	51	-	-	-	-	-	-
Greencode Pty Ltd	-	-	-	-	56	169	24	169
Kilgore Oil & Gas Limited	35	200	35	-	-	-	-	24
Odin Energy Limited	-	80	-	-	113	-	19	-
Pure Dawn Pty Ltd	-	-	-	-	-	126	126	126
Regal Resources Limited	-	27	-	-	-	-	6	6
Vector Resources Ltd	-	-	-	-	-	-	12	12

David Ballantyne is the sole Director and shareholder of AAG Management Pty Ltd.

AXG Mining Limited is a related party because Alex Bajada and Gordon Sklenka are directors of AXG Mining Limited.

Excalibur Mining Corporation Limited is a related party because Alex Bajada is a director of both companies.

Greencode Pty Limited is a related party because it is a subsidiary company of AXG Mining Limited which Alex Bajada and Gordon Sklenka are directors of.

Kilgore Oil and Gas Limited is a related party because Gordon Sklenka and Anthony Short are directors of both Companies. David Ballantyne is Company Secretary of both companies.

Odin Energy Limited is a related party because Alex Bajada is a director of both companies. David Ballantyne is Company Secretary of both companies.

Pure Dawn Pty Ltd is a related party because it is a fully owned subsidiary of Vector Resources Limited, a company which Gordon Sklenka and Anthony Short are directors.

Regal Resources Limited is a related party because Anthony Short is a director.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

26. RELATED PARTY TRANSACTIONS (Continued)

Vector Resources Limited is a related party because Gordon Sklenka and Anthony Short are directors.

During the financial year ended 31 December 2007 Odin Energy Limited prepaid the Company A$250,000 for US consulting services that it intends to use in the Company's wholly owned subsidiary, Advance Exploration and Production, Inc. As at 31 December 2009 the balance of A$90,000 has been disclosed as a customer deposit and is included in Trade and Other Payables (refer note 15 to the Financial Statements)

At 31 December 2009 the parent had outstanding loans with related parties. The table below represents the outstanding principle amounts.

Related Entity	2009 $'000	2008 $'000
Greencode Pty Ltd	500	900
Kilgore Oil & Gas Limited	-	350
Odin Energy Limited	-	2,000
Palace Resources Limited	27	200
	527	3,450

At 31 December 2009 interest totalling A$159,000 (2008: A$304,000) was outstanding. Interest charges outstanding are included in the first table.

At 31 December 2009 the parent had outstanding convertible loan notes with related parties. The table below represents the outstanding principle amounts.

Related Entity	2009 $'000	2008 $'000
Greencode Pty Ltd	400	-
Odin Energy Limited	1,600	-
Palace Resources Limited	135	-
	2,135	-

On 31 December 2009 Odin Energy Limited made applications to convert the balance of its loan into an unsecured listed convertible note which earns interest at 9.5% with a repayment date of 31 December 2014.

On 31 December 2009 Greencode Pty Ltd made applications to convert A$400,000 of its loan into an unsecured listed convertible note which earns interest at 9.5% with a repayment date of 31 December 2014.

The listed loan notes held by Palace Resources Limited earns interest at 9.5% with a repayment date of 31 December 2014.

At 31 December 2009 the parent had outstanding loans to related parties. The table below represents the outstanding principle amounts with any outstanding fees or interest shown in the table above.

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

26. RELATED PARTY TRANSACTIONS (Continued)

Related Entity	2009 $'000	2008 $'000
Blaze Asset Pty Ltd	301	-
Kilgore Oil & Gas Limited	309	-
GBU Capital Pty Ltd	20	-
	630	-

Amounts due from Blaze Asset Pty include a provision of A$297,000 against the gross amount receivable.

During the year the company used the services of Optimus Financial Pty Ltd to raise funds via an equity placement raising A$2.5m and the issue of A$5.25m unlisted convertible loan notes. Fees paid with respect to Optimus Financial Pty Ltd with respect to these services totalled A$400,000 (2008: $Nil). Optimus Financial Pty Ltd is a related party because Paul Berresford is also a Director of Optimus Financial Pty Ltd.

At 31 December Blaze Asset Pty Ltd had a receivable due from AAG Management totalling A$113,000 (2008: $Nil).

During the year Glory Run Pty Ltd purchased shares valued at A$645,840 (2008: $Nil) in Advance Energy Limited. Glory Run Pty Ltd is a 100% owned subsidiary of Odin Energy Ltd.

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 2009

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

Specified Director/Officer	Transaction	Note	2009 $'000	2008 $'000
Alex Bajada	Consulting fees	(i)	55	55
Anthony Short	Consulting fees	(ii)	220	220
Gordon Sklenka	Consulting fees	(iii)	101	101
Lance Camacho	Consulting fees	(iv)	-	36
David Ballantyne	Consulting fees	(v)	37	63
Kip Plankinton	Consulting fees	(vi)	50	-
Paul Berresford	Consulting fees	(vii)	9	-

(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 of which Mr David Ballantyne is a director.
(vi) The Company used the consulting services of Kip Plankinton.
(vii) The Company used the consulting services of Optimus Financial, a company which Mr Paul Berresford 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 A$4,485 (2008: A$5,161).

(b) Wholly owned group transactions

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

	GROUP 2009 $'000	GROUP 2008 $'000	PARENT ENTITY 2008 $'000	PARENT ENTITY 2008 $'000
Balances with entities in the wholly-owned group receivable – non-current	-	-	15,826	16,005

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 A$3,277,989 (2008: A$2,255,914) were made, and interest of A$529,173 (2007: A$776,807) was charged. In 2009 there were no repayments (2008: Nil).

27. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Parent Entity Key Management Personnel Remuneration

	Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Short-term employee benefits	470,674	474,513	420,770	474,513
Post –employment benefits	-	-	-	-
Long-term employee benefits	-	-	-	-
Share-based payment	-	-	-	-
	470,674	474,513	420,770	474,513

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 2009

Director	Balance at start of year	Acquired during year	Sold during year	Balance at end of year
Alex Bajada	5,802,144	-	-	5,802,144
Anthony Short	16,458,599	-	-	16,458,599
Gordon Sklenka	6,805,357	-	-	6,805,357
Kip Plankinton	-	-	-	-
Paul Berresford	-	5,000,000	-	5,000,000

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	2,782,143	-	5,802,144
Anthony Short	8,674,002	7,784,597	-	16,458,599
Gordon Sklenka	3,000,000	3,805,357	-	6,805,357
Kip Plankinton	-	-	-	-
Paul Berresford	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

Options Indirectly Held – Year Ended 2009

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
Kip Plankinton	-	-	-	-
Paul Berresford	-	-	-	-

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
Kip Plankinton	-	-	-	-
Paul Berresford	-	-	-	-

CPS Indirectly Held – Year Ended 2009

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
Kip Plankinton	-	-	-	-
Paul Berresford	-	-	-	-

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
Kip Plankinton	-	-	-	-
Paul Berresford	-	-	-	-

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

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

28. REMUNERATION OF THE AUDITORS

	GROUP		PARENT ENTITY	
	2009	2008	2009	2008
	$	$	$	$
Amounts received or due and receivable by BDO Audit (WA) Pty Ltd for:				
Audit and audit review services of the financial reports	55,334	53,933	55,334	53,933
Other services – Taxation	6,500	13,424	6,500	13,424
	61,834	67,357	61,834	67,357
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	45,628	50,175	-	-
			-	-
Other services – Taxation	-	15,377	-	-
	45,628	65,552	-	-
	107,462	132,909	61,834	67,357

29. COMMITMENTS

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:

	GROUP		PARENT ENTITY	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Within one (1) year	20	154	20	154
Between 1 and 5 years	-	20	-	20
Longer than 5 years	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

30. JOINT OPERATIONS

The Group holds interests in the assets of a number of unincorporated joint ventures, in Texas, USA.

	GROUP 2009 $'000	GROUP 2008 $'000
Other joint venture information		
Oil and gas revenues	2,361	5,071
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 2009 $'000	GROUP 2008 $'000
Current assets		
Trade and other receivables	344	278
Non-current assets		
Property, plant and equipment	443	1,450
Oil and gas properties	18,373	22,963
Exploration and evaluation costs	-	-
	18,816	24,414
	19,160	24,692
Current liabilities		
Payables	316	1,433
Net investment in joint venture operations	**18,844**	**23,259**

The above assets cover the following areas of interest:

Project	No. of Producing Wells at end 2009	Net Revenue interest	Net Working interest
Motherlode Phase I	5	68%-75%	100%
Motherlode Phase II	0	0%	0%
Motherlode Phase III	Development leases	38.25%	50%
Palo Pinto – Possum Kingdom	9	77%-79%	100%
Martin West	10	55-62%	82-90%
Total	24		

NOTES TO THE FINANCIAL STATEMENTS (Cont)

For The Year Ended 31 December 2009

31. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

The Company undertook workovers of the Holt#5 and Holt#6 wells in the Martin West project and of the Cazares#2 well in the Motherlode I project. The operator was only able to complete and stimulate the Upper Spraberry in the Holt#5 well due to severe mechanical and hole conditions resulting from prior operators completion The well was put online on February 10th and as of March 8th was making 15-20 BOPD and 10 MCFPD compared to 3 BOPD and 5 MCFPD in January 2010. The operator recompleted and stimulated the Holt#6 in the Upper Wolfcamp and Dean in February 2010. The well was put on pump in early March and has produced over 11 BOPD plus gas with a further 5,000 barrels of frac fluid to recover. The Cazares#2 well in the Mother Lode I project was recompleted in the Lower and Upper Wolfcamp in early 2010. The well is currently recovering 2 barrels of oil and 85 barrels of water per day.

32. CONTINGENCIES

There were no known contingencies at year end (2008: Nil).

33. SHARE BASED PAYMENTS

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

34. 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 27 to 78, 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 2009 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 20 to 24 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

A.Short
Managing Director

West Perth, Western Australia
30th March 2010

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

Matters Relating to the Electronic Presentation of the Full-Year Financial Report

This auditor's report relates to the full-year financial report of Advance Energy Limited for the year ended 31 December 2009 included on Advance Energy Limited's web site. The disclosing entity's directors are responsible for the integrity of Advance Energy Limited's web site. We have not been engaged to report on the integrity of Advance Energy Limited's web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this financial report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the financial report to confirm the information included in the audited financial report presented on this web site.

Report on the Full Year Financial Report

We have audited the accompanying financial report of Advance Energy Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

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*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

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

(a) 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 2009 and of their performance for the year ended on that date

   (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 $3,926,000 during the year ended 31 December 2009. 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 stated in the balance sheet.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO
Glyn O'Brien

Glyn O'Brien
Director

Signed in Perth, Western Australia
Dated this 30th day of March 2010.