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ADVANCE ENERGY LIMITED

ACN 111 823 762

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

Contents

CORPORATE DIRECTORY

Directors:

Chairman	Gordon Sklenka
Managing Director	Anthony Short
Non Executive Directors	Gordon Sklenka Kip Plankinton
Company Secretary	Alistair Jobling
Registered & Principal Office	16 Ord Street WEST PERTH WA 6005 Telephone: + 618 9429 2900 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 following code: Fully paid ordinary shares – AVD Options – AVDOA Convertible notes - AVDG
Share Registry	Advanced Share Registry Services 150 Stirling Hwy Nedlands WA 6009

CHAIRMAN'S LETTER

Dear Shareholder,

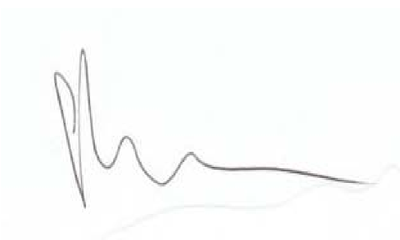
As a result of the sale of the Company's producing assets in 2010, this year has been the first since before listing in 2006 in which the Company did not have any revenues from the sale of oil and gas. Consequently, the Company has reported a loss of $1,595,824.

During the year, your Board has sought to acquire new oil and gas exploration assets that can be developed in order to return value to the Company. Through an extensive network of project generators, the Board has reviewed early stage projects in a number of regions but has yet to find one that can be acquired on suitable terms.

Advance retains a 50% working interest in the Mother Lode III project in Martin County, Texas. The project, which was initially acquired by Advance in 2007, contains two Proven Undeveloped wells (PUDs) and 18 Probable Undeveloped wells. In 2010, the operator (Endeavor Energy Partners) drilled the Roman 27-1 prospect, a Probable Undeveloped well, on a sole risk basis. The well was successfully completed and produced over 11,000 barrels of oil in its first 13 months of production. This confirms the quality of Advance's exploration asset and further de-risks it.

Advance has also made significant progress in re-structuring its long-term debt by securing noteholder and shareholder consent to amend the terms of its listed convertible notes. The conversion price has now been re-set so that noteholders can convert at a 15% discount to the prevailing share price. More importantly, the Company now has the option to issue shares to satisfy interest payable instead of paying cash. This will significantly reduce the Company's expenses and will give it further time to acquire and develop a new asset.

I would like to thank all stakeholders in the Company for their patience during this restructuring process. We look forward to the coming financial year, and the opportunities we hope it will bring.



Gordon Sklenka
Chairman
31st March 2012

REVIEW OF OPERATIONS

Operational Overview

In the year ending 31 December 2011, the company posted an audited loss after tax of AUD $1,595,824 (2010: $8,988,355).

Acquisition and Divestment

Having settled the sale of the Company's Martin West, Mother Lode Phase 1 and Possum Kingdom assets in December 2010, the Company made no acquisitions or divestments during 2011.

The Board continues to seek new projects that can be acquired that have the potential to add value to the Company. It has reviewed oil and gas projects in several countries but has yet to find a project that meets the acquisition criteria established by the Board or that can be acquired for suitable terms.

Share Placement Plan

The Company opened a Share Placement Plan whereby eligible shareholders were given the opportunity to subscribe for up to $15,000 in shares at $0.006 per share. The offer closed after the end of the financial year with the company having received applications for 13,500,000 shares.

Management Changes

Mr David Ballantyne retired as a Company Secretary of the Company on 23 May 2011 and was replaced by Mr Lloyd Flint. Subsequent to year end Mr Flint retired and was replaced by Mr Alistair Jobling.

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;	
	• 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 of that policy	Yes
3.5	Provide the information indicated in the Guide to reporting on principle 3.	No
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:	
	• consists only of non-executive Directors;	No
	• consists of a majority of independent Directors;	No
	• is chaired by an independent chair, who is not chair of the board; and	Yes

	• has at least three members.	Yes
4.3	The audit committee should have a formal charter	Yes
4.4	Provide the information indicated in the Guide to reporting on principle 4.	Yes
5	Make timely and balanced disclosure	
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes
5.2	Provide the information indicated in the Guide to reporting on principle 5.	Yes
6	Respect the rights of shareholders	
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy.	Yes
6.2	Provide the information indicated in the Guide to reporting on principle 6.	Yes
7	Recognise and manage risk	
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes
7.2	The board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes
7.3	The board should disclose whether it had received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes
7.4	Provide the information indicated in the Guide to reporting on principle 7.	Yes
8	Remunerate fairly and responsibly	
8.1	The board should establish a remuneration committee.	No
8.2	The remuneration committee should be structured so that : - it consists of a majority of independent directors; - it is chaired by an independent director; - has at least three members.	
8.3	Clearly distinguish the structure on non-executive Directors' remuneration from that of executive Directors and senior executives.	Yes
8.4	Provide the information indicated in the Guide to reporting on principle 8.	Yes

Council Principle 1: Lay solid foundations for management and oversight

1.1 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.

1.2 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.

1.3 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.

1.4 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 chairing shareholder meetings, and arranging Board performance evaluation.

1.5 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.

1.6 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.

1.7 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 two non-executive directors and one executive director. One director is independent in accordance with the terms of the ASX Corporate Governance Council's definition of an independent director. The Chairman (Mr Gordon Sklenka) is a non-executive and non-independent director in terms of the ASX Corporate Governance Council's definition of an independent director. The Board considers that its structure has been and continues to be appropriate in the context of the Company's current projects and operations. The Company considers that each director possesses skills and experience suitable for building the Company. Furthermore, the Board considers that in the current phase of the Company's growth, the Company's shareholders are better served by directors who have a vested interest in the Company. The Board intends to reconsider its composition as the Company's operations evolve, and appoint independent directors as appropriate.

The full board of directors performs the role of the nomination committee.

Council Principle 3: Promote ethical and responsible decision-making

The Company complies with this recommendation. The Company has a dopted 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 breaches 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 has established an Audit Committee that comprises the Managing Director and independent persons with the relevant qualification who are not directors. The Managing Director is the only executive director who is a member of the Audit Committee. The Audit Committee reports in writing to the Board that the consolidated financial statements of the Company and its controlled entities for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards.

The Company's audit committee and the 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.

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 year. The half-year audited financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Act and is lodged with the Australian 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; and
- 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 partner attends the Annual General Meeting.

Council Principle 7: Recognise and manage risk

The Company has developed an initial framework for risk management and internal compliance and control systems which covers organisational, financial and operational aspects of the Company's affairs. The framework is the subject of ongoing review and yet to be finalised. It appoints the Managing Director and Company Secretary as being responsible for ensuring that the systems are maintained and complied with.

Council Principle 8: Remunerate fairly and responsibly

The Board believes the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a permanent 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 aside time at board meetings to specifically address matters that would ordinarily fall to the remuneration committee.

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (Group) for the year ended 31 December 2011.

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.

G. Sklenka
A. Short
K. Plankinton

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 2011 after income tax amounted to $1.595 million (2010: loss $8.988 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 review of the Group's activities is contained in the Operations Review section of the Annual Report (refer page 4).

Significant changes in the state of affairs

There were no changes in the state of affairs.

Matters subsequent to the end of the financial year

Subsequent to the end of the year, the Company's share placement plan closed with the issue of 13,500,000 shares at 0.6 cents per share ($81,000).

Noteholders and shareholders approved amendments to the Convertible Note Trust Deed. These amendments include revising the conversion price to the lower of $0.08 and 85% of the volume weighted average price of shares traded in the 30 days before the conversion date. The amendments also give Advance the option of issuing shares to satisfy quarterly interest payable on the notes. These changes will significantly reduce the Company's interest expenses and realigns the conversion price of the notes with the current market price of shares.

Shareholders also approved the issue of up to 400,000,000 shares at 80% of the volume weighted average price of shares. As at the date of this report, no shares had been issued.

Subsequent to year end Mr Flint retired and was replaced by Mr Alistair Jobling.

DIRECTORS' REPORT (Cont)

Likely developments

Advance retains its interests in the Mother Lode III project on which the Roman 27-1 well was drilled and completed as a producer in 2010 by the operator, Endeavor Energy Resources. Advance currently intends to participate in further developments on the Greene prospect as they are proposed by Endeavor. The drilling of the Roman 27-1 well has further enhanced the value of the Mother Lode III asset, situated in the long life, slow decline Permian Basin area of Texas. The group's interest is only carried at a cost of US$637,491 in the consolidated statement of financial position, which doesn't reflect its value, and proved and probable reserves.

The Board will continue to review new energy projects, both within the US and elsewhere, with a view to acquisition and development.

Environmental Issues

The Group's operations are subject to various environmental regulations under the Federal and State Laws of 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.

The Group is subject to the reporting requirements of both the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007.

The Energy Efficiency Opportunities Act 2006 requires the Group to assess its energy usage, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken, including what action the Group intends to take as a result.

The National Greenhouse and Energy Reporting Act 2007 require the Group to report its annual greenhouse gas emissions and energy use. The Group intends to implement system and process for the collection and calculation of the data required in financial year 2012.

INFORMATION ON DIRECTORS AND SECRETARY

Names, qualifications, experience and special responsibilities

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

Mr Short has over 20 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

Odin Energy Ltd

Other directorships within the last three years

Victoria Petroleum NL, Regal Resources Ltd, Palace Resources Ltd and Vector Resources Ltd, Tamaska Oil and Gas Ltd (previously known as Kilgore Oil and Gas Ltd).

Mr Gordon Sklenka B.Com (UWA) – Chairman and 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 20 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,

DIRECTORS' REPORT (Cont)

capital raising and project acquisition. He is currently on the board of other Australian ASX listed public companies in the resources sector.

Other Current directorships

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

Other directorships within the last three years

Tamaska Oil and Gas Ltd (previously known as Kilgore Oil and Gas Ltd), Regal Resources Ltd and Vector Resources Ltd.

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 (resigned – 23 May 2011)

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 was director and company secretary of Odin Energy Ltd (resigned – 2 August 2011).

Lloyd Flint – Company Secretary B. Accounts, ICAA, FFIN, MBA (appointed - 23 May 2011 and resigned - 30 January 2012)

Mr Flint is a chartered accountant with over 20 years experience in corporate and financial services. He has held a number of management and senior administrative positions as well as providing corporate advisory services as a consultant to corporate clients.

Alistair Jobling - Company Secretary MBA, Grad Dip App Fin (Appointed 27 January 2012)

Mr Jobling is a finance professional who has provided consulting services to the Company since before listing, including business planning and administrative support to the Board and previous company secretaries. He has provided corporate advisory and company secretarial services to several other resources companies, including investment analysis, statutory reporting, project management, due diligence and the preparation of commercial agreements. He has previously worked as a consultant for a Big 4 accounting firm and as a director and investment manager focussing on property developments and technology. Mr Jobling is also Compliance Manager for AFS Licenses GBU Securities Pty Ltd.

Meetings of Directors

The number of meetings held by the Company's Board of Directors during the year ended 31 December 2011 and the number of meeting attended by each director were:

	Board meetings held	Board meetings attended
A. Short	13	13
G. Sklenka	13	13
K. Plankinton	13	6

DIRECTORS' REPORT (Cont)

Securities held and controlled by Directors

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

Ordinary shares

Holder	Held at beginning of year	Acquired	Dispose	Converted CPS	Balance at end of year
Anthony Short					
• Indirect	25,792,438	-	-	-	25,792,438
Gordon Sklenka					
• Indirect	10,927,499	-	-	-	10,927,499
Kip Plankinton					
• Indirect	-	-	-	-	-

Options – Listed: During the year no options were expired.

Holder	Held at beginning of year	Acquired	Dispose	Exercised	Balance at end of year
Anthony Short					
• Indirect	24,072,937	-	-	-	24,072,937
Gordon Sklenka					
• Indirect	10,198,997	-	-	-	10,198,997
Kip Plankinton					
• Indirect	-	-	-	-	-

Converting Preference shares (CPS)

Holder	Held at beginning of year	Acquired	Sold	Converted to shares	Balance at end of year
Anthony Short					
• Indirect	3	-	-	-	3
Gordon Sklenka					
• Indirect	1	-	-	-	1
Kip Plankinton					
• Indirect	-	-	-	-	-

Details of the conditions relating to conversion of the Converting Preference Shares are included in note 16.3.

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 Remuneration
E. Additional Information

As noted in the corporate governance section of this Annual Report, under council principle 8, the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a separate remuneration committee. The board manages the remuneration policy, setting the terms and conditions for executive directors and other senior executives.

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

DIRECTORS' REPORT (Cont)

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

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

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

- Competitiveness and reasonableness
- Acceptability to shareholders
- Transparency
- Capital management

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

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

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

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

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.

DIRECTORS' REPORT (Cont)

Performance-linked remuneration

The Company currently has no performance based remuneration. As previously stated two Board members including the Managing Director, 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 during the 2011 year was reduced significantly, 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 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 2011 of A$44,821, to be reviewed annually by the Board; and
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 3 months' fees.

Mr G Sklenka, Non-executive Director and Chairman
- 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 2011 of A$53,837 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 2011 of A$18,329 to be reviewed annually by the Board;

Key Management Personnel

Mr D Ballantyne, Company Secretary (Resigned – 23 May 2011)
- Commenced 5 February 2008, terminated on 23 May 2011.
- Consulting fee, based on time spent on Company business in the range of A$2,000 to A$10,000 per month 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.
- Consulting charges for 2011 are covered in monthly corporate advisory fees charged by GBU Capital Pty Ltd.

Mr L Flint, Company Secretary (Appointed -23 May 2011 and Resigned – 30 January 2012)
- Commenced 23 May 2011, terminated on 30 January 2012.
- 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.
- Consulting charges for 2011 are covered in monthly corporate advisory fees charged by GBU Capital Pty Ltd.

DIRECTORS' REPORT (Cont)

C. Details of Remuneration

The key management personnel of Advance Energy Limited during the year ended 31 December 2011 includes all directors and executives mentioned above.

Names and positions of key management personnel at any time during the financial period are:

Mr A Short	Managing Director
Mr G Sklenka	Non-Executive Chairman
Mr K Plankinton	Non-Executive Director
Mr D Ballantyne	Company Secretary (Resigned – 23 May 2011)
Mr L Flint	Company Secretary (Appointed – 23 May 2011 and resigned 30 January 2012)

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.

Nature and amount of remuneration for the year ended 31 December 2011.

		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)	2011	44,821	-	-	-	-	44,821	-	-
	2010	121,000	-	-	-	-	121,000	-	-
Non-executive directors									
A Bajada	2011	-	-	-	-	-	-	-	-
	2010	14,363	-	-	-	-	14,363	-	-
G Sklenka	2011	53,837	-	-	-	-	53,837	-	-
	2010	55,000	-	-	-	-	55,000	-	-
K Plankinton	2011	18,329	-	-	-	-	18,329	-	-
	2010	21,122	-	-	-	-	21,122	-	-
P Berresford	2011	-	-	-	-	-	-	-	-
	2010	13,750	-	-	-	-	13,750	-	-
Total directors' remuneration	**2011**	**116,987**	**-**	**-**	**-**	**-**	**116,987**	**-**	**-**
	2010	**225,235**	**-**	**-**	**-**	**-**	**225,235**	**-**	**-**

Other key management personnel									
D Ballantyne									
	2011	-	-	-	-	-	-	-	-
	2010	27,225	-	-	-	-	27,225	-	-
L Flint									
	2010	-	-	-	-	-	-	-	-
	2011	-	-	-	-	-	-	-	-
Total other key management remuneration	**2011**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2010	**27,225**	**-**	**-**	**-**	**-**	**27,225**	**-**	**-**
TOTAL REMUNERATION	**2011**	**116,987**	**-**	**-**	**-**	**-**	**116,987**	**-**	**-**
	2010	**252,460**	**-**	**-**	**-**	**-**	**252,460**	**-**	**-**

Consulting charges for Mr Ballantyne and Mr Flint are covered in monthly corporate advisory fees charged by GBU Capital Pty Ltd (note 24).

D. Share-based Remuneration

Options

No options were granted to directors and other key management during the year ended 31 December 2011 (2010: Nil).

Convertible Preference Shares

No convertible preference shares were issued during the year ended 31 December 2011 (2010: Nil).

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, including the Managing Director 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 restructure and 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 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.

DIRECTORS' REPORT (Cont)

SHARE OPTIONS

No options were expired during the year. Following options were expired in 2010:

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

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 16.3.

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 board to ensure they do not impact the impartiality and objectivity of the auditor; and
- 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 audit and/or non-audit services:

	Group	
BDO Audit (WA) Pty Ltd	**2011**	**2010**
	$	**$**
- Audit and assurance services	51,596	52,363
- Tax and other advices	-	-
Total Remuneration	51,596	52,363

DIRECTORS' REPORT (Cont)

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 2011 has been received and can be found on page 20.

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

G.Sklenka
Chairman

A. Short
Managing Director

West Perth, W.A.
30th March 2012

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

30 March 2012

The Directors
Advance Energy Ltd
16 Ord Street
WEST PERTH WA 6005

Dear Sirs,

DECLARATION OF INDEPENDENCE BY WAYNE BASFORD TO THE DIRECTORS OF ADVANCE ENERGY LIMITED

As lead auditor of Advance Energy Limited for the year ended 31 December 2011, 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 period.

Wayne Basford
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2011

	Notes	Group 2011	Group 2010
Continuing operations			
Revenue		-	-
Other income		54,896	43,425
Administrative expenses		(972,588)	(1,690,003)
Finance costs	7	(678,132)	(1,426,454)
Loss before income tax		(1,595,824)	(3,073,032)
Income tax expense	8	-	-
Loss from continuing operations		(1,595,824)	(3,073,032)
Loss from discontinued operation		-	(5,915,323)
Loss for the year before tax		(1,595,824)	(8,988,355)
Other comprehensive income			
Exchange differences on translation of foreign operations		(92,875)	(1,159,491)
Other comprehensive loss for the year, net of tax		(92,875)	(1,159,491)
Total comprehensive loss for the year		(1,688,699)	(10,147,846)
Loss is attributable to			
Owners of Advance Energy Ltd		(1,595,824)	(8,988,355)
Total comprehensive loss for the year is attributable to			
Owners of Advance Energy Ltd		(1,688,699)	(10,147,846)
Loss per share			
Basic loss (cents per share)- from continuing operations	19	(0.73)	(1.67)
Basic loss (cents per share)- from overall operations	19	(0.73)	(4.87)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	Group 2011	Group 2010
Current assets			
Cash and cash equivalents	9	144,532	2,545,539
Trade and other receivables	10	42,600	71,454
Total current assets		187,132	2,616,993
Non-current assets			
Property, plant and equipment	11	5,844	11,054
Oil and gas exploration	12	609,981	699,262
Other financial assets	13	-	44,746
Total non-current assets		615,825	755,062
Total Assets		802,957	3,372,055
Current liabilities			
Trade and other payables	14	420,440	763,123
Interest bearing liabilities	15	281,785	784,991
Total current liabilities		702,225	1,548,114
Non-current liabilities			
Interest bearing liabilities	15	6,675,500	6,675,500
Total non-current liabilities		6,675,500	6,675,500
Total Liabilities		7,377,725	8,223,614
Net Assets (deficiency)/surplus		(6,574,768)	(4,851,559)
Equity			
Issued share capital	16	16,109,747	16,144,258
Reserves	17	(714,262)	(621,388)
Accumulated losses	18	(21,970,253)	(20,374,429)
Total Equity		(6,574,768)	(4,851,559)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2011

	Notes	Group 2011	Group 2010
Cash flows from operating activities			
Receipts from customers		-	2,468,386
Payments to suppliers and staff		(974,436)	(1,807,402)
Interest received		54,896	10,683
Derivative instruments		-	-
Interest and borrowing costs		(678,132)	(1,385,577)
Income tax paid		-	(39,075)
Net cash provided by/ (used in) operating activities	20	(1,597,672)	(752,985)
Cash flows from investing activities			
Purchase of oil and gas assets/properties		-	(1,247,163)
Sale of oil and gas properties		-	10,933,626
Receipts from joint venture (Blaze assets)		-	155,081
Net cash inflow/(outflow) from investing activities		-	9,841,544
Cash flows from financing activities			
Proceeds from issues of shares		-	816,394
Capital raising costs		(34,510)	(13,545)
Proceeds from borrowings		250,000	98,137
Repayments of borrowings		(1,022,390)	(3,401,201)
Repayment of convertible notes		-	(5,290,556)
Receipt of term deposit		(30,300)	-
SPP – money held in trust		(47,000)	-
Net cash inflows from financing activities		(790,200)	(7,790,771)
Net increase in cash and cash equivalents		(2,387,873)	1,297,788
Cash and cash equivalents at the beginning of the financial year		2,545,539	1,254,791
Exchange rate changes on cash		(13,134)	(7,040)
Cash and cash equivalents at the end of the financial year	9	144,532	2,545,539

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

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For The Year Ended 31 December 2011

CONSOLIDATED

Year ended 31 December 2011	Issued Capital	Equity Reserve	Option Reserve	Foreign Currency Translation Reserve	Accumulated losses	TOTAL
Balance at beginning of year	**16,144,258**	**151,072**	**2,025,845**	**(2,798,305)**	**(20,374,429)**	**(4,851,559)**
Loss for the year	-	-	-	-	(1,595,824)	(1,595,824)
Currency translation on foreign operations	-	-	-	(92,875)	-	(92,875)
Total comprehensive loss for the year	-	-	-	(92,875)	(1,595,824)	(1,688,699)
Transactions with equity holders in their capacity as equity holders						
Issues of share capital, net of transaction costs	(34,511)	-	-	-	-	(34,511)
Balance at 31 December 2011	**16,109,747**	**151,072**	**2,025,845**	**(2,891,180)**	**(21,970,253)**	**(6,574,768)**

Year ended 31 December 2010	Issued Capital	Equity Reserve	Option Reserve	Foreign Currency Translation Reserve	Accumulated losses	TOTAL
Balance at beginning of year	15,546,888	151,072	1,821,455	(1,638,814)	(11,386,074)	4,494,527
Loss for the year	-	-	-	-	(8,988,355)	(8,988,355)
Currency translation on foreign operations	-	-	-	(1,159,491)	-	(1,159,491)
Total comprehensive loss for the year	-	-	-	(1,159,491)	(8,988,355)	(10,147,846)
Transactions with equity holders in their capacity as equity holders						
Issues of share capital, net of transaction costs	597,370	-	204,390	-	-	801,760
Balance at 31 December 2010	**16,144,258**	**151,072**	**2,025,845**	**(2,798,305)**	**(20,374,429)**	**(4,851,559)**

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

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2011

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

These 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 2011, the Group had net current liability of A$515,093 (2010: A$1.069 million) and a net asset deficiency of A$6.575 million (2010: net deficiency A$4.851 million). Of the current liabilities, $420,440 are payable to creditors and $281,785 interest bearing liabilities.

Since then, the Company raised $219,000 from the issue of shares and has repaid $100,000 of the current liabilities to Odin Energy Ltd. Leaving $86,784 payable to Odin, Odin has also provided a Letter of Support advising that it will not demand payment of the monies owed to it before 2013. A significant proportion ($244,454) of the company's payables are fees payable to related parties including consulting companies related to the directors. The directors of these companies have agreed not to demand payment of outstanding invoices in circumstances that would result in the Company not being able to pay its debts as and when they are due. Further details are included in Note 24.

The Group has incurred a net loss after tax for the year ended 31 December 2011 of A$1.596 million (2010: A$8.988 million) and net cash outflow from operating activities of A$1.634 million (2010: A$752,985).

The short term working capital requirements of the Group is dependent upon a successful capital raise. 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 funds in the future, as and when required.

The only non-current liabilities retained on the Company's statement of financial position at 31 December 2011 are listed convertible notes with a redemption date of December 2014. Subsequent to the end of the year, Noteholders and shareholders approved amendments to the Convertible Note Trust Deed giving the Company the option to issue shares to satisfy interest payable. This gives the Company the opportunity to reduce the annual interest expense by over $634,000.

Subsequent to the end of the year, the Company has raised $81,000 from a share purchase plan and a further $138,706 by the issue of shares to sophisticated investors under the Company's 15% capacity. Shareholders have also approved the issue of up to 400,000,000 shares at no less than

80% of the volume weighted average price of shares in the five days prior to the issue. The short term working capital requirements of the group depended upon the success of this capital raise.

Despite not participating in the drilling of the Roman 27-1 well drilled by Endeavour Energy in 2010, the Company has retained its 50% interest in the Mother Lode 3 development and production asset on which there are proven, probable and possible reserves. In June 2009 the Company released an unrisked PV10 valuation of this asset, based upon an independent assessment of the reserves, which was in excess of the current carrying cost of US$730,000. The Roman 27-1 drilled by the operator, Endeavour Energy in 2010, produced over 11,000 barrels of oil in its first 13 months of production and would be considered a commercial success. The Company will consider participation in the further drilling programmes on this project in the current financial year.

The Company continues to review international and domestic energy projects with significant exploration potential and will make market announcements as and when appropriate. It has secured shareholder approval to undertake a capital raising in order to explore and/or develop any acquisition and, possibly to participate in the Mother Lode 3 drilling programme.

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 develop cash flow from its current assets, acquire new projects and to secure additional funding through the raising of further equity capital and/or support from its financiers.

Based on the above, the Group is confident that it will successfully meet its financial obligations into the foreseeable future.

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

The consolidated entity financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

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 available-for-sale financial assets.

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 (refer note 3).

Principles of Consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Advance Energy Ltd ("company" or "parent entity") as at 31 December 2011 and the results of all subsidiaries for the year then ended. Advance Energy Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

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

(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 joint venture activity have been incorporated in the financial statements under the appropriate headings.

The interest in a joint venture partnership is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the partnership is recognised in statement of comprehensive income, and the share of movements in reserves is recognised in reserves in the statement of financial position.

Segment reporting

AASB 8 requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are now reported in a manner that is consistent with the internal reporting to the chief operating decision maker ("CODM"), which has been identified by the company as the board.

Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss.

(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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position
- income and expenses for each statement of comprehensive income 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 statement of comprehensive income, 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 delivered to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

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 inthe statement of comprehensive income for 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.

iii) Impairment

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

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

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

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

Impairment losses are recognised separately in the profit or loss.

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 profit or loss in the year the item is derecognised.

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 losses 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 statement of financial position 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.

(iv) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position 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 statement of cash flows cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Cash and short-term deposits in the statement of financial position 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 statement of cash flows 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.

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.

(i) Derivatives that do not qualify for hedge accounting

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

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 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 statement of comprehensive income net of any reimbursement.

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

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

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

Employee benefits

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

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

Share Based Payments

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

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

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

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

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

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.
Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognised immediately unless the original vesting conditions are not market related and those conditions have not been met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

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

Borrowing Costs

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

Income Tax

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

Deferred tax is provided on all temporary differences at the reporting 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 reporting 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 reporting 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.

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.

New accounting standards and interpretations

The Group has chosen not to early-adopt any accounting standards that have been issued, but are not yet effective. Set out below is a summary of issued accounting standards, relevant to the Consolidated Entity, which are not yet effective and a description of their expected effect on the Group's financial statements(if any).

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project;
- AASB 2009-8 Amendments to Australian Accounting Standards -Group Cash-settled Share-based Payment Transactions;
- AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues; and
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

(ii) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2011 reporting periods and have not yet been applied in the financial report. The Group's assessment of the impact of these new standards and interpretations is set out below.

- AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011). Amendments made to AASB 7 Financial Instruments: Disclosures in November 2010, introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2011.
- AASB 10 Consolidated Financial Statements (effective for the annual reporting periods commencing on or after 1 January 2013). AASB 10 introduces certain changes to the consolidation principles, including the concept of de facto control and changes in relation to the special purpose entities. The Group is continuing to assess the impact of the standard.
- AASB 11 Joint Arrangements (effective for the annual reporting periods commencing on or after 1 January 2013). AASB 11 introduces certain changes to the accounting for joint arrangements. Joint arrangements will be classified as either joint operations (where parties with joint control have rights to assets and obligations for liabilities) or joint ventures (where parties with joint control have rights to the net assets of the arrangement). Joint arrangements structured as a separate vehicle will generally be treated as joint ventures and accounted for using the equity method. The Group is continuing to assess the impact of the standard.
- AASB 13 Fair Value Measurement (effective for annual reporting periods commencing on or after 1 January 2013). AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value on the statement of financial position or disclosed in the notes to the financial statements. The Group is continuing to assess the impact of the standard.
- AASB 2011-9 Presentation of Financial Statements (effective for annual reporting periods commencing on or after 1 July 2013). AASB 101, amended in June 2011, introduces amendments to align the presentation items of other comprehensive income with US GAAP. The Group will apply the amended standard from 1 July 2013. When the standard

is first adopted, there will be changes to the presentation of the statement of comprehensive income. However, there will be no impact on any of the amounts recognised in the financial statements.

- AASB 1054 Australian Additional Disclosures (effective for annual reporting periods beginning on or after 1 July 2011). AASB 1054, issued in May 2011, moves additional Australian specific disclosure requirements for for-profit entities from various Australian Accounting Standards into this Standard as a result of Trans-Tasman Convergence Project. AASB 1054 Australian Additional Disclosures removes the requirement to disclose each class of capital commitments contracted for at the end of the reporting period (other than commitments for the supply of inventories). When the standard is adopted for the first time for the financial year ending 30 June 2012, the financial statements will no longer include disclosures about capital and other expenditure commitments as these are no longer required by AASB 1054.
- AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective for annual reporting periods beginning on or after 1 January 2013). AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is continuing to assess its full impact.
- Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 1 January 2011). In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Group's will apply the amended standard from 1 July 2011. When the amendments are applied, The Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.
- AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013). On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. The Group is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards - Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.
- AASB 2010-8 Amendments to Australian Accounting Standards Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012). In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets and liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The amendment is not expected to have any significant impact on The Group's financial statements. The Group intends to apply the amendment from 1 July 2012.
- AASB 119 - Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans, actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods, subtle amendments to timing for recognition of liabilities for termination benefits, and employee benefits expected to be settled (as opposed to due to settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability. This standard has no impact as there are no annual leave provision amounts that are non-current. The Group will apply this from 1 July 2013.

The Group does not anticipate early adoption of any of the above accounting standards.

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 subsidiaries are not exposed to foreign exchange risk as all transactions are denominated in its functional currency being US dollars.

(ii) Price risk

Over the reporting period, the Company did not have any oil and gas production and was therefore not exposed to movements in the price of oil and gas. The Company therefore has no requirement to mitigate oil and gas price risk (2010: Hedging contract was in place being put options with the floor price of $65 for crude oil).

Group sensitivity

As the Company did not receive any revenue from the sale of oil and gas, it is not considered necessary to review sensitivities to movements in oil and gas prices.

(iii) 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 to cash flow interest rate risk. During 2011 and 2010, the Group’s borrowings at variable rate were denominated in US Dollars and denominated in Australian Dollars. The Group 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.

Group sensitivity

At 31 December 2011, 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$4,311 lower/higher (2010: A$69,000 lower/higher), mainly as a result of lower/higher interest expense on convertible notes.

(b) Credit risk

The Group had some credit risk through its hedging programme. There is currently no hedging program in place. The program was managed by a broker of exchange-listed futures and options in the world, MF Global Ltd who are A3/BBB+/BBB+ rated by Moody’s, S&P and Fitch respectively.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and/or the capacity to raise additional equity. As an oil and gas producer, the Group has aimed to maintain flexibility in funding by keeping committed credit lines available with a variety of counterparties. In light of the Company's current activities, the need to maintain a diverse range of funding maturities has been diminished.

(i) Consolidated

The Group has a revolving line of credit with Sterling Bank of Texas in the U.S which has been used to fund the acquisition and development of producing properties. Historically; the borrowing base of the line of credit, as determined by the bank, has approximated the company's investment in oil and gas properties, up to a maximum of US$40 million. The drawn balance of the loan bears interest at US prime plus 1.0% and is secured against the company's oil and gas properties. In 2011, Sterling Bank of Texas was acquired by Comerica. The Company intends to review the status of the line of credit at the next available opportunity. There has been no notification from Comerica that it intends to withdraw or revise the credit facility, but it is unlikely that this facility could be drawn on unless the Company acquires or develops producing assets.

(ii) Maturities of financial liabilities

The tables below analyses the Group'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 2011 and are no different to the carrying values.

Group	2011						
	Within 6 months	6 Months to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
Financial Liabilities							
Trade creditors and accruals	420,440	-	-	-	-	420,440	420,440
Convertible notes	-	-	-	6,675,500	-	6,675,500	6,675,500
Interest bearing borrowings	-	281,785	-	-	-	281,785	281,785
Total Financial Liabilities	420,440	281,785	-	6,675,500	-	7,330,725	7,330,725

Group	2010						
	Within 6 months	6 Months to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
Financial Liabilities							
Trade creditors and accruals	763,123	-	-	-	-	763,123	763,123
Convertible notes	-	634,172	634,172	7,943,846	-	9,212,190	6,675,500
Interest bearing borrowings	-	784,991	-	-	-	784,991	784,991
Total Financial Liabilities	763,123	784,991	-	6,675,500	-	8,223,615	8,223,615

(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 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 objective when managing capital is to safeguard their ability to continue as a going concern (note (i)). Where possible they seek to maximise longer term debt and to minimise additional equity capital, to avoid unnecessary shareholder dilution.

	Note	GROUP 2011 $	2010 $
Total borrowings	15	6,957,285	7,460,491
Less: Cash and cash equivalents	9	(144,532)	(2,545,539)
Net debt		6,812,753	4,914,952
Total equity		(6,574,768)	(4,851,560)
Total capital		237,985	63,392
Gearing ratio		104%	7,753%

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(i) Estimated impairment

The Group tests annually whether oil and gas exploration has suffered any impairment, in accordance with the accounting policy stated in notes on page 32. The future recoverability of oil and gas exploration expenditure is dependent on a number of factors, including whether the group decides to exploit the related lease itself, or, if not, whether it successfully recovers the related oil and gas asset through sale.

Factors taht could impact the future recoverability include the level of reserves and resources, future technological changes, future legal costs, and changes to commodity prices.

To the extent that capitalised oil and gas exploration expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which the determination is made.

(ii) Income taxes

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

(iii) Fair Value of Derivatives

Convertible Notes

Under AASB 132, convertible notes are classified as compound financial instruments if they have both a liability and equity component. The Company 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 15.
Subsequent to the year end, the holders of convertible notes voted approve changes to the terms and conditions of the convertible notes. These changes were subsequently approved by shareholders at a general meeting. The conversion price has been changed to the lower of $0.08 and 80% of the volume weighted average price of shares traded on ASX in the 30 days before a notice of conversion is received. The Company has also been given the option of paying interest due under the convertible notes by the issue of shares at 80% of the volume weighted average price of shares in the five days before the interest payment date. The carrying amount of these convertible notes as at 31 December 2011 was A$6,675,500 (2010: A$6,675,500)

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.

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:

2011	USA $	Australia $	Total $
Revenues	-	282,995	282,995
Segment result (loss)	(403,306)	(1,547,641)	(1,950,947)
Segment assets	(1,188,982)	(759,235)	(1,948,217)
Segment liabilities	(8,410,099)	(7,313,853)	(15,723,951)

2010	USA $	Australia $	Total $
Revenues	2,193,637	695,782	2,889,419
Segment result (loss)	(7,332,321)	(10,317,534)	(17,649,855)
Segment assets	(1,020,880)	(3,024,610)	(4,045,490)
Segment liabilities	(7,837,439)	(8,044,077)	(15,881,515)
Acquisition of plant & equipment, exploration & evaluation and other non-current assets	(1,247,425)	-	(1,247,425)
Depreciation and amortisation	(1,062,431)	-	(1,062,431)

1) Segment revenue

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

	Consolidated	
	2011 $	2010 $
Total segment revenue	282,995	2,889,419
Revenue from discontinuing operations	-	(2,193,637)
Intersegment eliminations	(228,099)	(652,357)
Total revenue from continuing operations	54,896	43,426

2) Segment results

Segment result reconciles to total comprehensive income as follows:

	Consolidated	
	2011 $	2010 $
Total segment result (loss)	(1,950,947)	(17,649,855)
Intersegment eliminations	355,123	1,586,686
(Profit)/ loss from discontinued operations	-	5,915,323
Foreign exchange elimination	-	1,159,491
Loss before tax	(1,595,824)	(8,988,355)

3) 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	
	2011 $	2010 $
Segment assets	1,948,217	4,045,490
Intersegment eliminations	(1,145,260)	(673,435)
Total assets	802,957	3,372,055

4) 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	
	2011 $	2010 $
Segment liabilities	(15,723,951)	(15,881,515)
Intersegment eliminations	8,346,226	7,657,901
Total liabilities	7,377,725	8,223,615

5. REVENUE

	GROUP	
	2011 $	2010 $
Oil and gas sales	-	2,193,637

6. DISCONTINUED OPERATION

During the prior year Advance Energy Ltd announced its intention to sell the oil and gas property division and initiate an active program to locate a buyer and complete the sale. The division was sold on 17th December 2010 and the division is reported in these financial statements as a discontinued operation.

Financial information relating to the discontinued operation for the prior period to the date of disposal is set out below.

Financial performance of discontinuing operations:

	GROUP	
	2011 $	2010 $
Revenue	-	2,193,637
Expenses	-	(2,118,504)
Profit/(loss) before tax	-	75,133
Income tax	-	-
Profit/(loss) after tax	-	75,133
Loss on sale of division before tax	-	(5,990,455)
Income tax	-	-
Loss on sale of division after tax	-	(5,990,455)
Loss from discontinued operations	-	(5,915,323)
Loss attributable to owners of the parent entity		
Loss from continuing operations	-	(3,073,033)
Loss from discontinuing operations	-	(5,915,323)
	-	8,988,356

	2011 $	2010 $
Net cash inflow from operating activities	-	1,170,270
Net cash inflow/ (outflow) from investing activities	-	9,686,463
Net increase in cash generated by the division	-	10,856,733

Details of the sale of division:

	2011 $	2010 $
Consideration received or receivable:		
Cash	-	10,933,626
Total disposal consideration	-	10,933,626
Carrying amount of net assets sold	-	(16,924,081)
Loss on sale of asset before tax	-	(5,990,455)
Income tax	-	-
Loss on sale of asset after tax	-	(5,990,455)

7. EXPENSES

	GROUP	
	2011 $	2010 $
Loss from discontinuing operations before income tax has been determined after:		
(a) Employee/consultant benefit expense		
Directors/key management expense	116,987	252,460
Share/option based payments	-	-
Total employee/consultant benefit	116,987	252,460
(b) Finance costs		
Interest on borrowings	678,132	1,426,454
Total Finance costs	678,132	1,426,454

8. INCOME TAX

	GROUP	
	2011 $	2010 $
a) Income tax (benefit)/expense		
Current tax charge	-	-
Deferred tax relating to origination and reversal of temporary differences	-	-
Income tax expense/(benefit) reported in the statement of comprehensive income	-	-
b) Deferred tax (benefit)/expense		
Decrease/(increase) in deferred tax asset	-	-
(Decrease)/increase in deferred tax liability	-	-
	-	-

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:

c) Numerical reconciliation of income tax expense to prima facie tax payable		
Accounting loss before tax	(1,595,824)	(8,988,355)
At statutory income tax rate of 30% (2010: 30%)	(478,747)	(2,696,507)
Expenditure not allowable for tax purposes	88,709	122,654
Deferred Tax Assets not brought to account	399,103	2,935,786
Foreign exchange movements	(9,065)	(361,933)
Income tax expense/(benefit)	-	-

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.

d) Unrecognised deferred tax balances		
Deferred tax assets/(liabilities) recognised and un-recognised:		
Tax losses:		
Australian tax losses – revenue	2,856,188	2,530,912
Foreign tax losses – revenue	3,198,850	3,125,023
Temporary differences		
Australian – other	14,982	7,041
Foreign subsidiaries – Capitalised exploration and evaluation	(213,493)	(244,742)
Foreign subsidiaries – Other	(1,415)	10,582
Total unrecognised	5,855,112	5,428,816

The franking balance as at the end of the year was nil (2010: nil)

Advance Energy Limited has tax losses arising in Australia of A$9,520,625 (2010: A$8,436,373) that are available indefinitely to offset against future profits of the Company providing the tests for deductibility against future profits are met.

9. CASH AND CASH EQUIVALENTS

	GROUP	
	2011 $	2010 $
Cash at bank	144,532	2,545,539

10. TRADE AND OTHER RECEIVABLES

	GROUP	
	2011 $	2010 $
Current		
Trade receivables	37,100	71,454
Other receivables	5,500	-
	42,600	71,454

11. PROPERTY, PLANT AND EQUIPMENT

	GROUP	
Plant and Equipments	2011 $	2010 $
Opening net book value	-	427,467
Exchange differences	-	1,359
Additions	-	31,098
Disposals	-	(459,924)
Depreciation	-	-
Closing book value	**-**	**-**
Office Equipments		
Opening net book value	11,054	15,301
Exchange differences	(143)	(1,243)
Additions	-	3,315
Disposals	-	-
Depreciation	(5,067)	(6,319)
Closing book value	5,844	11,054
Total Property, Plant and Equipment	5,844	11,054

12. OIL AND GAS EXPLORATION

Oil and Gas Exploration

	GROUP	
	2011 $	2010 $
Oil and gas exploration – cost	609,981	699,262
Less accumulated depletion	-	-
	609,981	699,262

Movements in carrying amounts are reconciled as follows:

Opening balance	699,262	18,372,726
Acquired during period	-	1,247,425
Sold during period	-	(16,924,081)
Depletion charge	-	(1,056,113)
Impairment	(88,345)	-
Foreign exchange difference	(936)	(940,695)
	609,981	699,262

13. OTHER FINANCIAL ASSETS

	GROUP	
	2011 $	2010 $
Non-Current		
Other financial assets	-	44,746
	-	44,746

14. TRADE AND OTHER PAYABLES

	GROUP	
	2011 $	2010 $
Trade payables	373,440	515,773
Other payables	47,000	247,350
	420,440	763,123

Refer to Note 2 for foreign currency exposure and disclosures on fair values. Included in trade and other payables are amounts due to related parties. See note 24 for further details.

15. INTEREST BEARING LOANS AND BORROWINGS

	GROUP	
	2011 $	2010 $
Current		
Short term loans[1]		
Unsecured	255,000	566,439
Accrued interest	26,785	218,552
	281,785	784,991
Non-current		
Convertible Notes – unsecured[2]		
Face value of the note	6,675,500	6,675,500
Interest accrued	-	-
	6,675,500	6,675,500

1) For further details see note 24 of this report.

2) In aggregate the listed convertible notes may be converted at the option of the holder into a maximum of 83,443,750 shares before the expiry date, at a minimum price of 8 cents per share. The terms of the listed notes are sixty (60) months with a coupon rate of 9.5% for the listed notes, and a redemption date of 31 December 2014. As at 31 December 2011 all unlisted notes have been repaid.

16. ISSUED CAPITAL

16.1 Ordinary shares

	GROUP	
	2011 $	2010 $
217,676,915 authorised and fully paid ordinary shares (2010: 217,676,895)	16,109,747	16,144,258
Movements in shares on issue		
Beginning of period	16,144,258	15,546,888
Shares issued during the period		
Option conversion- issued 20 shares @$0.03	-	-
61,309,173 shares issued @A$0.01	-	613,092
Less capital raising costs	(34,511)	(15,722)
End of year	16,109,747	16,144,258

(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.

16.2 Options

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

2011 Expiry Date	Exercise Price	Number at beginning of period	Issued	Exercised	Expired during the period	Number at end of period
31 August 2012	$0.03	202,931,768	-	-	-	202,931,768

2010 Expiry Date	Exercise Price	Number at beginning of period	Issued	Exercised	Expired during the period	Number at end of period
31 August 2012	$0.03	-	202,931,768(1)	-	-	202,931,768
31 December 2010	$0.25	13,850,000	-	-	13,850,000	-
31 December 2010	$0.40	250,000	-		250,000	-
		14,100,000	-	-	14,100,000	202,931,768

(1) 202,931,768 options issued at $0.001 per option.

16.3 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:

2011 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

2010 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

17. RESERVES

	GROUP	
	2011 $	2010 $
Option reserve (1)	2,025,845	2,025,845
Foreign currency translation reserve (2)	(2,891,180)	(2,798,305)
Equity reserve (3)	151,072	151,072
	(714,263)	(621,388)
(1) Option reserve		
Opening balance	2,025,845	1,821,455
Issue of options during period (see note 18)	-	204,390
	2,025,845	2,025,845
(2) Foreign currency translation		
Opening balance	(2,798,305)	(1,638,814)
Currency translation differences arising during the year	(92,875)	(1,159,491)
	(2,891,180)	(2,798,305)
(3) Equity reserve		
Opening balance	151,072	151,072
	151,072	151,072

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

During the year no options were issued (2010: 202,931,768).

(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.

18. ACCUMULATED LOSSES

	GROUP	
	2011 $	2010 $
Accumulated losses at the beginning of the year	(20,374,429)	(11,386,074)
Net loss attributable to the members of the parent entity	(1,595,824)	(8,988,355)
Accumulated losses at the end of the financial year	(21,970,253)	(20,374,429)

19. EARNINGS PER SHARE

	GROUP 2011 $	GROUP 2010 $
Basic earnings/(loss) per share		
Reconciliation of earnings to net loss		
Net loss from continuing operations	(1,595,824)	(3,073,033)
Net loss from discontinuing operations	-	(5,915,323)
Net loss	(1,595,824)	(8,988,355)
Weighted average number of ordinary shares outstanding during the period used in calculation of basic EPS	Number	Number
	217,676,906	184,484,575

Details of the shares issued are included under note 16. Dilutive EPS is not reflected as it would result in the reduction of the loss per share.

20. CASH FLOW INFORMATION

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

	GROUP 2011 $	GROUP 2010 $
Profit (loss) after income tax	(1,595,824)	(8,988,355)
Non cash flows in profit (loss) from continuing operations		
Depreciation	5,067	6,319
Impairment of oil and gas exploration	89,280	1,056,113
Increase/(decrease) in provisions	28,156	(116,805)
Loss on sale of asset	-	5,990,455
Derivative financial instrument	-	48,379
Interest accrued not paid	-	-
Foreign exchange difference	-	(13,042)
Changes in assets and liabilities		
Increase/(decrease) in trade creditors and accruals	(208,395)	865,862
(Increase)/decrease in trade and other receivables	84,042	398,089
Cash flows from (used in) operations	(1,597,672)	752,985

21. DEFERRED TAX LIABILITIES

There were no deferred tax liabilities as at 31 December 2011 (2010: nil).

22. INTERESTS IN JOINT VENTURES

As at 31 December 2011, the investment in the associate is not brought to account as the Company's share of losses exceeds its interest in the associate and as such these further losses are not recognised.

23. 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 2011	Percentage held 2010
Advance Exploration and Production, Inc	Texas USA	100%	100%
AEPI Midstream, Inc	Texas USA	100%	100%
Advance Wolfberry Inc	Texas USA	100%	100%

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

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

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

24. 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 Companies charged by related entities for office and secretarial services, and 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 2011 are detailed below:

Entity		Amount Owing/ (Owed) $	Relationship
AAG Management Pty Ltd/ GBU Capital Pty Ltd/ GBU Security Pty Ltd	31 December 2011	-	AAG Management Pty Ltd is a management company which provides facilities, human resources, and other administration and consulting services. AAG Management Pty Ltd is a fully owned subsidiary of GBU Capital Pty Ltd. From 01/07/2011 AAG Management Pty Ltd has been charging a fixed monthly fee for the above mentioned services. GBU Capital Pty Ltd is a related party because Anthony Short and Gordon Sklenka are directors of GBU Capital. The outstanding balance to GBU/AAG is included in trade creditors/other payables. During the year AAG Management has charged $120,000 (2010:$471,186) and GBU Capital has charged $154,836(2010:$222,559). These include reimbursements and admin charges provided in table 1.1 and 1.2 (page 51). During the period, outstanding receivables from AAG and GBU of $28,155 are provided for. GBU Security Pty Ltd is a fully owned subsidiary for GBU Capital Pty Ltd. During the period, GBU Security has charged $13,800 for capital raising.
	31 December 2010	42,863	
Odin Energy Ltd	31 December 2011	105,524	In 2010 the company borrowed $250,000. The outstanding balance accrues interest at the rate of 12% per annum and is repayable by 31 December 2012. Odin Energy is a related party because Anthony Short is a director of Odin Energy Ltd and David Ballantyne was a director of Odin Energy Ltd and was company secretary of both companies. The interest charged during the year was $18,648. The outstanding interest of $18,739 from previous year is

			included in trade payables in note 14. Subsequent to year end outstanding balance of $105,524 has been paid.
	31 December 2010	276,876	
Greencode Pty Ltd	31 December 2011	79,375	Greencode Pty Limited is a related party because it is a subsidiary company of AXG Mining Limited of which Alex Bajada and Gordon Sklenka are directors of. The loan facility accrues 6.25% interest per annum. During the year $15,334 was charged for interest.
	31 December 2010	554,828	
Pure Dawn Pty Ltd /Vector Resources Ltd	31 December 2011	-	Pure Dawn Pty Ltd is a related party because it is a fully owned subsidiary of Vector Resources Ltd a company of which Gordon Sklenka and Anthony Short were previously directors.
	31 December 2010	100,000	
Palace Resources Ltd	31 December 2011	-	Palace Resources Limited is a related party because Anthony Short was previously a director.
	31 December 2010	44,524	

During the financial year ended 31 December 2007 Odin Energy Limited prepaid the Company A$250,000 for US consulting services that it intended to use in the Company's wholly owned subsidiary, Advance Exploration and Production, Inc. As at 31 December 2011 the balance owing of A$120,000 has been disclosed as a customer deposit and is included in Trade and Other Payables (refer note 14 to the Financial Statements)

During the year Glory Run Pty Ltd purchased shares valued at A$Nil (2010: $305,016) in Advance Energy Limited. Glory Run Pty Ltd is a 100% owned subsidiary of Odin Energy Ltd. During the period, $12,176 has been charged for capital raising.

From January 2011, director's consulting companies are charging travel and related expenses directly to the company. During the year AAG Management/GBU Capital are not reimbursed for any travel expenses.

Directors/Consultants	Reimbursement
Mr. A Short- Fay Holdings Pty Ltd	$115,351
Mr. G Sklenka – Formaine Pty Ltd	$20,030
Total	**$135,381**

Company	Reimbursement for administrative expenses
AAG Management Pty Ltd	$120,000
GBU Capital Pty Ltd(1)	$154,836
Total	**$274,836**

(1) GBU Capital is charging fixed monthly fees for corporate advisory services which covers Mr. Ballantyne and Mr. Flint's consulting.

In 2010, following expenses are reimbursed by Advance Energy Ltd to AAG Management and GBU Capital for Director or consultants travel and other administrative expenses:

Table 1.1

Directors/Consultants	**Reimbursement to AAG Management Pty Ltd**	**Reimbursement to GBU Capital Pty Ltd**
Mr. A Short	$44,246	$23,872
Mr. A Bajada	$101,210	$6,633
Mr. G Sklenka	$5,609	$2,820
Total	**$151,064**	**$33,325**

Table 1.2

Company	**Reimbursement for administrative expenses**
AAG Management Pty Ltd	$211,159
GBU Capital Pty Ltd	$165,363
Total	**$376,522**

Following related parties are holding convertible notes of Advance Energy Ltd:

Company	2011 (Units)	2010 (Units)
Odin Energy Ltd	1,600,000	1,600,000
AXG Mining Ltd	400,000	400,000
Palace Resources Ltd	135,000	135,000
Sandgroper Pty Ltd	8,000	8,000
Total	2,143,000	2,143,000

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 16 of this Annual Report).

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

Specified Director/Officer	Transaction	Note	2011$	2010$
Alex Bajada	Consulting fees	(i)	-	14,363
Anthony Short	Consulting fees	(ii)	44,821	121,000
Gordon Sklenka	Consulting fees	(iii)	53,837	55,000
David Ballantyne	Consulting fees	(v)	-	27,225
Kip Plankinton	Consulting fees	(vi)	18,329	21,122
Paul Berresford	Consulting fees	(vii)	-	13,750

(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 consultancy services of Sandgroper Pty Ltd, a company of which Mr David Ballantyne is a director.
(v) The Company used the consulting services of Kip Plankinton.
(vi) 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.

Consulting charges for Mr Ballantyne and Mr Flint are covered in monthly corporate advisory fees charged by GBU Capital Pty Ltd.

25. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key Management Personnel Remuneration

	Group	
	2011 $	2010 $
Short-term employee benefits	116,987	252,460
Post –employment benefits	-	-
Long-term employee benefits	-	-
Share-based payment	-	-
	116,987	252,460

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 2011

Holder	Held at beginning of year	Acquired	Dispose	Converted CPS	Balance at end of year
Anthony Short	25,792,438	-	-	-	25,792,438
Gordon Sklenka	10,927,499	-	-	-	10,927,499
Kip Plankinton	-	-	-	-	-

Shares Indirectly Held – Year Ended 2010

Holder	Held at beginning of year	Acquired	Dispose	Converted CPS	Balance at end of year
Alex Bajada	5,802,144	2,320,857	-	-	8,123,001
Anthony Short	16,458,599	9,383,437	49,598	-	25,792,438
Gordon Sklenka	6,805,357	4,122,142	-	-	10,927,499
Paul Berresford	5,000,000	-	-	-	5,000,000
Kip Plankinton	-	-	-	-	-

Options – Listed – Year Ended 2011

Holder	Held at beginning of year	Acquired	Dispose	Exercised	Balance at end of year
Anthony Short	24,072,937	-	-	-	24,072,937
Gordon Sklenka	10,198,997	-	-	-	10,198,997
Kip Plankinton	-	-	-	-	-

Options – Listed – Year Ended 2010

Holder	Held at beginning of year	Acquired	Dispose	Exercised	Balance at end of year
Alex Bajada	-	7,581,466	-	-	7,581,466
Anthony Short	-	24,072,937	-	-	24,072,937
Gordon Sklenka	-	10,198,997	-	-	10,198,997
Paul Berresford	-	-	-	-	-
Kip Plankinton	-	-	-	-	-

CPS Indirectly Held – Year Ended 2011

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

CPS Indirectly Held – Year Ended 2010

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.

Directors have no direct or indirect holdings of convertible notes. As at year end Mr Ballantyne holds 350,000 fully paid ordinary shares (2010:350,000) and 8,000 convertible notes (2010:8,000).

26. REMUNERATION OF THE AUDITORS

	GROUP	
	2011 $	2010 $
Amounts received or due and receivable by BDO Audit (WA) Pty Ltd for:		
Audit and audit review services of the financial reports	51,596	52,363
Other services – Taxation	-	-
	51,596	52,363

Amounts received or due and receivable by Ferguson Comp & Poll,P.C in relation to the US based subsidiary companies for:		
Audit and audit review services of the financial reports	29,388	37,634
Other services – Taxation	-	-
	29,388	37,634
	80,984	89,997

27. COMMITMENTS

There were no commitments as at 31 December 2011 (2010:Nil)

28. JOINT OPERATIONS

	GROUP	
	2011	2010
	$	$
The Group hold interests in the assets of a number of unincorporated joint ventures, in Texas, USA.		
Other joint venture information		
Oil and gas revenues- discontinued operations	-	2,193,637
Contingent liabilities	-	-
Capital commitments	-	-

The principal activities of these joint operations were 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.

	2011	2010
Trade and other receivables	6,421	32,673
Non-current assets		
Property, plant and equipment	5,844	39,554
Oil and gas exploration	609,981	699,262
	615,825	738,816
	622,246	771,489
Current liabilities		
Payables	(15,414)	(79,893)
Net investment in joint venture operations	**606,832**	**691,596**

The above assets cover the following areas of interest:

Project	No. of Producing Wells at end 2011	Net Revenue interest	Net Working interest
Motherlode Phase III	Development leases 1 Producing well	38.25%	50%

29. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Noteholders and shareholders approved amendments to the Convertible Note Trust Deed. These amendments include revising the conversion price to the lower of $0.08 and 85% of the volume weighted average price of shares traded in the 30 days before the conversion date. The amendments also give Advance the option of issuing shares to satisfy quarterly interest payable on the notes. These changes will significantly reduce the Company's interest expenses and realigns the conversion price of the notes with the current market price of shares.

Shareholders also approved the issue of up to 400,000,000 shares at 80% of the volume weighted average price of shares.

Subsequent to year end Mr Flint retired and was replaced by Mr Alistair Jobling.

30. CONTINGENCIES

There were no known contingencies at year end (2011: Nil).

31. SHARE BASED PAYMENTS

There were no share or option based payments made during the financial year. (2010: Nil)

32. DIVIDENDS

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

33. PARENT ENTITY INFORMATION

The ultimate holding Company of the group, Advance Energy Ltd (the "Parent") has not been reported in these financial statements other than the followings, pursuant to changes to the corporation act 2001;

	Parent Entity	
	2011 $	2010 $
Current Assets	133,160	2,327,164
Non Current Assets	626,075	697,446
Total Assets	759,235	3,024,610
Current Liabilities	638,353	654,336
Non Current Liabilities	6,675,500	7,389,741
Total Liabilities	7,313,853	8,044,077
Issued Capital	16,156,747	16,144,258
Accumulated Losses	(24,888,282)	(23,340,641)
Reserve	2,176,917	2,176,917
Total Equity	(6,554,618)	(5,019,466)
Loss for the Year	(1,547,641)	(10,317,534)
Total Comprehensive loss for the year	(1,547,641)	(10,317,534)

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1) The financial statements and notes, as set out on pages 21 to 55, are in accordance with the Corporations Act 2001 and:

   a) comply with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   b) give a true and fair view of the financial position as at 31 December 2011 and of the performance for the period ended on that date of the Company and Group;

2) The Directors have declared that:

   a) the financial records of the Company for the financial period have been properly maintained in accordance with section 286 of the Corporations Act 2001

   b) the financial statements and notes for the financial period comply with the Accounting Standards; and

   c) the financial statements and notes for the financial period give a true and fair view.

3) The remuneration disclosures included in the Directors' Report (as part of the audited Remuneration Report), for the year ended 31 December 2011, comply with section 300A of the Corporations Act 2001.

4) 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.

5) The financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board

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

G.Sklenka Chairman	**A.Short** Managing Director

West Perth, Western Australia
30th March 2012

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Subiaco, WA 6008
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Australia

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

Report on the Financial Report

We have audited the accompanying financial report of Advance Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 company's preparation of the financial report that gives a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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*, which has been given to the directors of Advance Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss of $1,595,824 during the year ended 31 December 2011 and, as of that date, the consolidated entity's total liabilities exceeded its total assets by $5,872,543 and has a net current liability position of $515,093. The Group's short term working capital requirements is depended upon a successful capital raise. The Group will be required to seek additional funding through debt, equity or other means to continue its activities. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 18 of the directors' report for the year ended 31 December 2011. 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.

Opinion

In our opinion, the Remuneration Report of Advance Energy Limited for the year ended 31 December 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Wayne Basford
Director

Perth, Western Australia
Dated this 30th day March 2012

SHAREHOLDER INFORMATION

TWENTY LARGEST SHAREHOLDERS – FULLY PAID ORDINARY SHARES as at 18th April 2012

Rank	Name	Units	% of Units
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	31,914,062	10.12
2	FAY HOLDINGS PTY LTD	18,867,436	5.98
3	GOLDBONDSUPER PTY LTD <GOLDBOND SUPERFUND A/C>	14,438,895	4.58
4	PALACE RESOURCES LTD	12,169,520	3.86
5	ODIN ENERGY LIMITED	11,875,000	3.77
6	GLORY RUN PTY LTD	11,365,446	3.6
7	JET STRIKE PTY LTD	6,275,000	1.99
8	TODMOR NOMINEES PTY LTD <GARY JOHNSON S/F NO 2 A/C>	6,250,000	1.98
9	BBH NOMINEES PTY LTD <HOWELLS SUPER FUND A/C>	6,250,000	1.98
10	SPARTAN NOMINEES PTY LTD <SPARTAN SUPER FUND A/C>	5,883,001	1.87
11	FORMAINE PTY LTD <GORDON SKLENKA FAMILY A/C>	5,572,142	1.77
12	ELANEL PTY LTD <MARVELLOUS PROPERTY A/C>	5,000,000	1.59
13	MR ROBERT PAUL MARTIN + MRS SUSAN PAMELA MARTIN <NITRO SUPER FUND A/C>	5,000,000	1.59
14	SPARTAN NOMINEES PTY LTD <SPARTAN SUPERFUND>	5,000,000	1.59
15	ACCORD INVESTMENT CORPORATION PTY LTD <ACCORD UNIT A/C>	4,695,885	1.49
16	GLORY RUN PTY LTD	4,470,000	1.42
17	PINEWOOD HOLDINGS PTY LTD	4,375,000	1.39
18	MCLARTY SUPER PTY LTD <MCLARTY FAMILY S/F A/C>	4,250,000	1.35
19	BEACHCRAFT PTY LTD	4,214,000	1.34
20	SHORT NOMINEES PTY LTD	4,124,999	1.31
Totals: Top 20 holders of AVD ORDINARY FULLY PAID		**171,990,386**	**54.53**
Total Remaining Holders Balance		**143,407,764**	**45.47**

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

BY CLASS	HOLDER OF ORDINARY SHARES	NUMBER OF ORDINARY SHARES	%
1 - 1,000	23	3,442	0.00%
1,001 - 5,000	36	123,778	0.04%
5,001 - 10,000	107	870,497	0.28%
10,001 - 100,000	246	10,019,392	3.18%
> 100,000	188	304,381,041	96.51%
Total	**600**	**315,398,150**	**100.00%**

TWENTY LARGEST LISTED CONVERTIBLE NOTES as at 18 April 2012

RANK	NAME	UNITS	% OF UNITS
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,300,000	64.41
2	ODIN ENERGY LIMITED	1,600,000	23.97
3	AXG MINING LTD	400,000	5.99
4	PALACE RESOURCES LTD	135,000	2.02
5	GOLDBONDSUPER PTY LTD <GOLDBOND SUPERFUND A/C>	20,000	0.3
6	ACCORD INVESTMENT CORPORATION PTY LTD <ACCORD UNIT A/C>	20,000	0.3
7	DR MARK RODERICK OLIVE + DR BENG HOR EU <MOBU SUPER FUND A/C>	15,000	0.22
8	SERGIO IANNELLO	12,500	0.19
9	SILVANA IANNELLO	12,500	0.19
10	BEACHCRAFT PTY LTD	10,000	0.15
11	MS BEVERLEY CHARD + MR JOHN SHERATON <CHARD FAMILY S/F A/C>	10,000	0.15
12	MS BEVERLEY JOY CHARD + MR JOHN SHERATON <CHARD FAMILY S/F A/C>	10,000	0.15
13	G & R MCKENZIE PTY LTD <G & R MCKENZIE S/F A/C>	10,000	0.15
14	MR CHRISTOPHER JAMES ASHWORTH	10,000	0.15
15	GP HAMOR PTY LTD <HAMGAR NO 2 SUPER FUND A/C>	10,000	0.15
16	DIANA THELMA DANN + SAMANTHA JANE DANN <DALVEEN P/L SUPER FUND A/C>	10,000	0.15
17	MR MAGNUS GISLI GISLASON + MRS JENNIFER JEAN GISLASON <GISLASON RETIREMENT A/C>	10,000	0.15
18	SANDGROPER SUPER PTY LTD <SANDGROPER SUPER A/C>	8,000	0.12
19	FOUR FIFTY PTY LTD <MARBLES SUPER FUND A/C>	7,500	0.11
20	ALWAYS HOLDINGS PTY LTD	5,000	0.07
Totals: Top 20 holders of AVDG CONVERTIBLE NOTES		**6,615,500**	**99.1**
Total Remaining Holders Balance		**60,000**	**0.9**

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

BY CLASS	NUMBER OF HOLDERS	NUMBER OF CONVERTIBLE NOTES	%
1 - 1,000	0	0	0.00%
1,001 - 5,000	26	65,000	0.97%
5,001 - 10,000	10	95,500	1.43%
10,001 - 100,000	5	80,000	1.20%
> 100,000	5	6,435,000	96.40%
Total	**45**	**6,675,500**	**100.00%**

TWENTY LARGEST LISTED OPTION HOLDERS as at 18 April 2012

RANK	NAME	UNITS	% OF UNITS
1	JOHN WARDMAN & ASSOCIATES PTY LTD <THE WARDMAN SUPER FUND A/C>	31,407,524	15.48
2	FAY HOLDINGS PTY LTD	18,916,272	9.32
3	GLORY RUN PTY LTD	12,133,333	5.98
4	RPM SUPER PTY LTD <RPM SUPER FUND A/C>	11,386,666	5.61
5	MR ROBERT PAUL MARTIN + MRS SUSAN PAMELA MARTIN <RP & SP MARTIN S/FUND A/C>	10,000,000	4.93
6	SPARTAN NOMINEES PTY LTD <SPARTAN SUPER FUND A/C>	5,490,800	2.71
7	FORMAINE PTY LTD <GORDON SKLENKA FAMILY A/C>	5,340,665	2.63
8	SHORT NOMINEES PTY LTD	5,156,665	2.54
9	PETER BERTEI	5,007,466	2.47
10	MAROLA PTY LTD <SMITH FAMILY A/C>	5,000,000	2.46
11	CLOUDAY PTY LTD <SMITH SUPER FUND A/C>	5,000,000	2.46
12	MR WALTER SHAMSABADI	4,875,000	2.4
13	ACCORD INVESTMENT CORPORATION PTY LTD <ACCORD UNIT A/C>	4,382,826	2.16
14	GLORY RUN PTY LTD	4,172,000	2.06
15	PINEWOOD HOLDINGS PTY LTD	4,083,333	2.01
16	MR SIMON WILLIAM TRITTON <INVESTMENT A/C>	4,000,000	1.97
17	BEACHCRAFT PTY LTD	3,933,066	1.94
18	LINESTAR PTY LTD	3,551,666	1.75
19	MR ALFREDO VARELA	3,200,000	1.58
20	MR VINCENZO BRIZZI + MRS RITA LUCIA BRIZZI <BRIZZI FAMILY S/F A/C>	3,056,000	1.51
Totals: Top 20 holders of AVDOA OP31082012/$0.03		**150,093,282**	**73.96**
Total Remaining Holders Balance		**52,838,466**	**26.04**

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

BY CLASS	NUMBER OF HOLDERS	NUMBER OF OPTIONS	%
1 - 1,000	5	244	0.00%
1,001 - 5,000	6	17,976	0.009%
5,001 - 10,000	6	42,889	0.021%
10,001 - 100,000	38	1,961,799	0.967%
> 100,000	92	200,908,860	99.003%
Total	**147**	**202,931,768**	**100.00%**

ADDITIONAL SHAREHOLDER INFORMATION

A. CORPORATE GOVERNANCE

A statement disclosing the extent to which the Company has followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting period is previously contained in this document as contained in the 31 Dec 2011 annual report, announced to the market on 31/03/2012 and also available on the Company website.

B. SHAREHOLDING

1. Substantial Shareholders

The following substantial shareholders were listed on the Company's register as at 18th April 2012:

	Shareholder	Number of shares	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	31,914,062	10.12
2	FAY HOLDINGS PTY LTD	18,867,436	5.98

2. Unquoted Securities

	Holders	Number of securities	Class of equity
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,300,000	Convertible notes
2	ODIN ENERGY LIMITED	1,600,000	Convertible notes

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

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

There are 600 holders of ordinary shares. Each Shareholder is entitled to one vote per share held. On a show of hands every Shareholder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

There are 45 holders of convertible notes. There are no voting rights attached to these convertible notes.

There are 147 holders of listed options. There are no voting rights attached to these options.

4. Marketable parcel

There are 394 Shareholders with less than a marketable parcel as at 18th April 2012.

C. OTHER DETAILS

1. Company Secretary

Alistair Jobling

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

The address and telephone details of the registered and administrative office:
Suite 2, 16 Ord Street
WEST PERTH Western Australia 6005

Telephone: + (61) 08 9429 2900
Facsimile: + (61) 08 9486 1011

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

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

Advanced Share Registry Services
150 Stirling Highway
NEDLANDS Western Australia 6009

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

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

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

5. Restricted Securities

There are no restricted securities.

6. Review of operations

A review of operations is included in this report under Review of operations.

7. Exploration Projects

All leases and operations are located in the state of Texas in USA as tabled below :

API#	Operator	Lease	Well#	Field name	RRC#	AEPI WI	AEPI NRI	Acreage held
42-317-36123	Endeavor Energy Resources L.P.	Roman "27"	1	Spraberry (Trend Area)	40739	0.5	0.3778125	160