



ADVANCED ENGINE COMPONENTS LIMITED

ACN: 009 081 770

ADVANCED ENGINE COMPONENTS LIMITED

ABN 67 009 081 770

RIGHTS ISSUE OFFER DOCUMENT

Non-renounceable prorata offer of 1 New Share for every 3 Shares held at the Record Date at an issue price of 5.5 cents per share

**Offer closes at 5.00pm WST on 30 March 2010.
Valid acceptances must be received before that time.**

NB: Payment made by BPAY® must be received by 3.00pm WST on 30 March 2010.

This Offer Document is important and requires your immediate attention. Please read this document and the instructions on the accompanying Entitlement and Acceptance Form regarding your entitlement. If you have any questions about the securities being offered or any other matter, you should consult your stockbroker, accountant or other professional advisor.

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IMPORTANT INFORMATION

Offer Document not a Prospectus

This Offer is being made under provisions of the Corporations Act which allow rights issues to be made without a prospectus. Therefore this Offer Document is not a prospectus and does not contain all of the information that an investor would find in a prospectus or which may be required to make an informed investment decision regarding, or about the rights attaching to, the New Shares offered by this Offer Document. No person is authorised to give any information or to make any representation in connection with the Offer which is not contained in this Offer Document. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with the Offer.

The New Shares on offer should be considered speculative. Shareholders should refer to the risk factors outlined in Section 3 of this Offer Document and consult their financial advisor as to the course they should follow in respect of their entitlement before making a decision whether to accept their entitlement.

Eligibility

Applications for New Shares by Eligible Shareholders can only be made on an original Entitlement and Acceptance Form, as sent with this Offer Document. The Entitlement and Acceptance Form sets out an Eligible Shareholder's entitlement to participate in the Offer. Instructions for completion of the Entitlement and Acceptance Form are set out in Section 2 of this Offer Document and on the Form.

Overseas Shareholders

No action has been taken to permit the offer of New Shares under this Offer Document in any jurisdiction other than Australia, New Zealand, Hong Kong or Malaysia. The offer of New Shares is not made to persons or places to which, or in which, it would not be lawful to make such an offer of securities. Any persons who come into possession of this Offer Document should seek advice on and comply with any legal restrictions.

Privacy

Persons who apply for New Shares pursuant to this Offer Document are asked to provide minimum personal information to the Company, either directly or through the Share Registry. The Company and the Share Registry collect, hold and use that personal information to assess applications for New Shares, to provide facilities and services to Shareholders, and to carry out various administrative functions. The Company is committed to respecting the privacy of your personal information. By submitting an Entitlement and Acceptance Form, each Shareholder agrees that the Company may use the information provided for the purposes set out in this privacy disclosure statement and may disclose it to the Company's related bodies corporate, agents and third party service providers including mailing houses, the ASX and other regulatory bodies on the basis that they deal with such information in accordance with the relevant privacy laws. If you do not provide the information required on the Entitlement and Acceptance Form, the Company may not be able to accept or process your Application. In accordance with privacy laws, information collected in relation to specific Shareholders can be obtained by that Shareholder by contacting the Company or the Share Registry. A fee may be charged for access. Access requests must be made in writing to the Company's registered office.

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WESTERN AUSTRALIA

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2 March 2010

Dear Shareholder

Your Directors are pleased to offer you an opportunity to participate in the Company's Rights Issue.

The Rights Issue offers 1 New Share for every 3 Shares held at an issue price of 5.5 cents per share to all eligible shareholders at the Record Date.

The Rights Issue gives shareholders the opportunity to increase their investment in the Company at the same price of 5.5 cents as the recent \$1,200,000 placement and without any brokerage fees.

In addition, the Company has incorporated a Shortfall facility whereby eligible Shareholders may apply for additional New Shares in excess of their entitlement at the same price. The Company reserves the right to place any Shortfall at the discretion of the Directors within three months of the Closing Date.

The Rights Issue is not underwritten. The Company's major shareholder, 698 has agreed to take up 20,000,000 New Shares of its 21,474,577 share entitlement under the Rights Issue being \$1,100,000. All Directors have confirmed their intention to subscribe for their full personal share entitlements under the Rights Issue raising a further \$558,362.

The Rights Issue will raise up to approximately \$3,132,741 if fully subscribed. The funds raised will be used by the Company to provide working capital support for its ongoing sales commitments with \$1,100,000 used to pay the accrued interest on the expired convertible notes held by 698. Other than 698's \$1,100,000 Rights Issue subscription, 698 has agreed that monies raised through the Rights Issue will not be called upon to repay any of its existing loan or accrued interest facilities.

To participate in the Rights Issue you must either:

- **submit your payment using BPAY® before 3.00pm WST on 30 March 2010; or**
- **complete and return your personalised Entitlement and Acceptance Form attaching a cheque or bank draft to our share registry so that it is received before 5.00pm WST on 30 March 2010.**

On behalf of the Board I invite you to consider the information provided in this Offer Document and the Company's ASX announcements and encourage you to consider the Offer. If you are unsure about any aspects of the Offer you should consult your financial adviser.

Thank you for your continuing support as a shareholder of ACE.

Yours faithfully

Tony Middleton
Managing Director

1 DETAILS OF THE OFFER

1.1 TERMS OF THE OFFER

The Company is making a non-renounceable pro-rata offer of New Shares at an issue price of 5.5 cents per New Share on the basis of 1 New Share for every 3 Shares held at the Record Date with any fractional entitlements being rounded up. The Company has also included a facility for Eligible Shareholders to apply for more New Shares than their entitlement on the same terms as the Offer under any Shortfall (subject to availability).

As at the date of this Offer Document, the Company has 170,876,777 Shares on issue. Based on the current issued capital, the number of New Shares to be issued under the Offer, if fully subscribed, will be 56,958,926. The Company also has 25,185,000 unquoted options on issue which carry no entitlement to participate in the Offer unless exercised prior to the Record Date.

The Offer is not underwritten.

1.2 TIMETABLE

	2010
Announcement of Rights Issue/Offer	23 February
Shares trade ex-entitlements	25 February
Record Date (5.00pm WST)	3 March
Dispatch of Offer Document and Entitlement & Acceptance Form	9 March
Opening Date (9.00am WST)	10 March
Closing Date (5.00pm WST)	30 March
Date for notifying ASX of any Shortfall	6 April
Expected date for allotment of New Shares	8 April
Expected date for New Shares to commence trading on ASX	9 April
Expected date for dispatch of confirmation/holding statements	9 April

*This timetable is indicative only.
The Company reserves the right to vary the above dates subject to the Listing Rules.*

1.3 USE OF FUNDS

The Company will raise up to approximately \$3,132,741 (before costs) should the Offer be fully subscribed. As the Offer is not underwritten, the full amount may not be raised. The Company's major shareholder, 698, has agreed to take up 20,000,000 New Shares of its 21,474,577 share entitlement under the Offer being \$1,100,000. Further, all Directors have confirmed their intention to subscribe for their full personal share entitlements under the Offer raising a further \$558,362.

The funds raised will be used by the Company to provide working capital support for its ongoing sales commitments with \$1,100,000 used to pay the accrued interest on the expired convertible notes held by 698. Other than 698's \$1,100,000 Rights Issue subscription, 698 has agreed that monies raised through the Offer will not be called upon to repay any of its existing loan or accrued interest facilities. In conjunction with the Rights Issue, the Company has also completed a share placement raising \$1,200,000 and a debt restructure as announced on 18 February 2010.

1.4 ENTITLEMENT AND ACCEPTANCE

Entitlements to participate in the Offer were determined based on Shareholders with registered addresses in Australia, New Zealand, Hong Kong or Malaysia at the Record Date. The number of New Shares to which an Eligible Shareholder is entitled is shown on their personalised Entitlement and Acceptance Form accompanying this Offer Document. Eligible Shareholders wishing to accept their entitlement in part or in full should refer to Section 2 of this Offer Document for full instructions. There is no obligation on Shareholders to participate in the Offer.

1.5 NO RIGHTS TRADING

The rights to New Shares under the Offer are non-renounceable. Accordingly, there will be no trading of rights on the ASX and Shareholders may not dispose of their rights to any other party. If Shareholders do not take up their entitlement under the Offer by the Closing Date, their entitlement will lapse and form part of the Shortfall.

1.6 SHORTFALL

Eligible Shareholders who accept their full entitlement may apply for additional New Shares on the same terms under the Shortfall. The allocation of these additional New Shares will be limited to any Shortfall and will be at the discretion of the Directors. Shareholders wishing to apply for additional New Shares should do so on the Entitlement and Acceptance Form and should refer to Section 2 of this Offer Document for full instructions.

The Company reserves the right to place any Shortfall, other than to related parties of the Company, at the discretion of the Directors. In accordance with the ASX Listing Rules, the Company must place any Shortfall within three (3) months of the Closing Date.

1.7 ALLOTMENT AND ALLOCATION POLICY

The New Shares will be issued as soon as possible after the Closing Date. All Eligible Shareholders accepting their entitlements will be allotted their New Shares. The Directors reserve the right to allocate any Shortfall at their absolute discretion. As such, Shareholders who apply for additional New Shares may receive fewer than that applied for or none at all of their additional New Shares. In this event, any surplus application monies will be refunded without interest. Holding or confirmation statements in relation to the New Shares will be dispatched to Shareholders as soon as possible after allotment.

Shareholders who are broker sponsored will be sent a holding statement through CHESS. Shareholders who are issuer sponsored will be sent a holding statement by the Company's share registry. The statements will set out the number of New Shares allotted under the Offer Document and provide details of a Shareholder's Holder Identification Number (for CHESS) or Shareholder Reference Number (for issuer sponsored Shareholders).

It is the responsibility of Shareholders to confirm the number of New Shares allotted to them prior to trading on ASX. Shareholders who sell their New Shares before they receive their holding statements do so at their own risk.

1.8 APPLICATION FOR QUOTATION OF THE NEW SHARES

The Company has applied to ASX for official quotation of the New Shares to be issued under the Offer. The fact that ASX may grant official quotation to the New Shares is not to be taken in any way as an indication by ASX as to the merits of the Company or the New Shares.

1.9 TERMS OF THE NEW SHARES

The New Shares to be issued pursuant to the Offer are of the same class and will rank equally in all respects with the existing Shares in the Company.

1.10 WITHDRAWAL OF OFFER

The Company reserves the right not to proceed with the Offer at any time before the issue of the New Shares. If the Offer does not proceed, the Company will return all application monies without interest as soon as practicable after giving notice of its withdrawal.

1.11 RISK FACTORS

In addition to the general risks applicable to all investments in securities of a listed company, there are specific risks associated with an investment in the Company which are set out in Section 3 of this Offer Document. An investment in the New Shares should be considered speculative.

1.12 TAXATION CONSIDERATIONS

The Directors do not consider it appropriate to give Shareholders advice regarding the taxation consequences of subscribing for New Shares under this Offer Document as it will differ depending on the individual affairs of each Shareholder. All Shareholders are urged to obtain independent financial advice concerning the taxation consequences of accepting their entitlement and subsequent disposal of New Shares. The Company, its officers or advisers do not accept any responsibility or liability in respect of any such taxation consequences.

1.13 INELIGIBLE SHAREHOLDERS

Shareholders with registered addresses outside Australia, New Zealand, Hong Kong or Malaysia at the Record Date were not eligible to participate in the Offer. The Company believes that it is unreasonable to make the Offer to these Shareholders having regard to the small number of such Shareholders, the small number and value of New Shares that would be offered to them and the cost of complying with the securities legislation in those foreign jurisdictions. Accordingly, the New Shares to which any ineligible Shareholders would be entitled will form part of the Shortfall. The Company has sent a letter to each ineligible Shareholder providing details of the Offer and advising that the Company will not be making the offer to them.

1.14 PROFORMA CAPITAL STRUCTURE

The table below shows the potential impact of the Offer on the capital structure of the Company as at the date of this Offer Document assuming the Offer is fully subscribed. It is noted that the Offer is not underwritten and therefore the full Offer may not be subscribed. The final number of New Shares to be issued upon completion of the Offer is not known at the date of this Offer Document. The Company reserves the right to place any Shortfall within 3 months of the Closing Date.

The table assumes that no existing options are exercised from the date of this Offer Document to the time of completion of the Offer. Option holders do not have any right to participate in the Offer unless they exercise their options prior to the Record Date. If any options are exercised and Shares allotted prior to the Record Date, the number of New Shares offered under this Offer Document will increase.

SHARES		Full Subscription Number of Shares		
Shares on issue at the date of this Offer Document		170,876,777		
New Shares to be issued under the Offer		56,958,926		
Proforma Total Shares on issue after the Offer		227,835,703		
OPTIONS		Exercise Price	Expiry Date	Number
	Unquoted	20 cents	31 Dec 2010	5,505,000
	Unquoted	18 cents	31 Dec 2010	1,180,000
	Unquoted	6 cents	30 Nov 2011	2,500,000
	Unquoted	5.5 cents	30 Nov 2011	1,250,000
	Unquoted	5 cents	30 Nov 2011	1,250,000
	Unquoted	4.7 cents	30 Nov 2011	2,500,000
	Unquoted	4.4 cents	30 Nov 2011	750,000
	Unquoted	4.3 cents	30 Nov 2011	750,000
	Unquoted	3.6 cents	30 Nov 2011	1,750,000
	Unquoted	3.7 cents	30 Nov 2011	1,750,000
	Unquoted	7.1 cents	30 Nov 2011	1,750,000
	Unquoted	6.2 cents	30 Nov 2011	1,750,000
	Unquoted	5.9 cents	30 Nov 2011	750,000
	Unquoted	5.65 cents	30 Nov 2011	1,000,000
	Unquoted	5.4 cents	30 Nov 2011	750,000
Total Options on issue at the date of this Offer Document				25,185,000

1.15 SHAREHOLDING POSITIONS

The issue of the New Shares pursuant to this Offer is not expected to have any material effect or consequence on the control of the Company.

At the date of this Offer Document, the two major shareholders of the Company are 698 and Nathan which together hold more than 50% of the issued shares. Based on the various potential scenarios shown below, the Offer will not have a material effect on the control of the Company.

Set out below is an indicative summary of the potential major shareholding positions after the Rights Issue:

	Current Shareholdings		Offer Fully Subscribed (Note 1)		Offer Partly Subscribed (Note 2)		Offer Partly Subscribed (Note 3)	
698	64,423,731	37.7%	84,423,731	37.1%	84,423,731	39.4%	84,423,731	42.0%
Nathan	22,943,182	13.4%	30,590,909	13.4%	30,590,909	14.3%	30,590,909	15.2%
Other	83,509,864	48.9%	112,821,063	49.5%	99,417,621	46.3%	86,014,180	42.8%
Total	170,876,777	100.0%	227,835,703	100.0%	214,432,261	100.0%	201,028,820	100.0%

Note (1) Assumes 100% of the New Shares are taken up by other Shareholders (in addition to the 30,152,043 New Shares taken up by 698, Nathan and the other Directors per their respective commitments) raising \$3,132,741.

Note (2) Assumes 50% of the New Shares are taken up by other Shareholders (in addition to the 30,152,043 New Shares taken up by 698, Nathan and the other Directors per their respective commitments) raising \$2,395,552.

Note (3) Assumes none of the New Shares are taken up by other Shareholders (in addition to the 30,152,043 New Shares taken up by 698, Nathan and the other Directors per their respective commitments) raising \$1,658,362.

1.16 ENQUIRIES

Shareholders with questions on how to complete the Entitlement and Acceptance Form should contact the Share Registry on 1300 725 613 or +61 3 9415 4000.

2 ACTION REQUIRED BY SHAREHOLDERS

2.1 ENTITLEMENT AND ACCEPTANCE FORM

Eligible Shareholders will receive a personalised Entitlement and Acceptance Form accompanying this Offer Document which has been pre-printed showing:

- the number of Shares held by them at the Record Date;
- the number of New Shares available to them under their entitlement; and
- the amount payable upon full acceptance of their entitlement.

Applications for New Shares can only be made by completing and lodging an original Entitlement and Acceptance Form and application monies with the Share Registry or by paying with BPAY on the internet or by phone using the Biller Code and personalised Reference Number shown on the Entitlement and Acceptance Form. Instructions for completion are included below and on the Entitlement and Acceptance Form.

Eligible Shareholders may accept their entitlement in full or in part or not at all. Any Eligible Shareholder accepting their full entitlement may also apply for additional New Shares.

The Directors' decision as to whether to treat the acceptance as valid and how to construe, amend or complete the Entitlement and Acceptance Form is final, however a Shareholder will not be treated as having applied for more New Shares than is indicated by the amount paid via BPAY or on the cheque for the application monies in cleared funds.

2.2 PAYMENT OF APPLICATION MONIES

Shareholders who wish to accept their entitlement under this Offer Document may pay by either BPAY or cheque as follows:

Payment by BPAY

If you wish to pay using BPAY, there is no requirement to return the Entitlement and Acceptance Form. You can simply make a payment for the number of New Shares (and any additional shares) you wish to apply for using the Biller Code and your personalised Reference Number (which is required to identify your shareholding) which can be found on your Entitlement and Acceptance Form. Instructions regarding making a payment by BPAY are also set out on the Entitlement and Acceptance Form.

Please note that payment made by BPAY must be received no later than 3.00pm WST on the Closing Date being 30 MARCH 2010.

Payment by Cheque

If you do not wish to pay using BPAY, you must send your completed Entitlement and Acceptance Form with a cheque in Australian dollars for the application monies, made payable to "Advanced Engine Components Limited" and crossed "Not Negotiable". If a cheque for application monies is not honoured on its first presentation, the Directors reserve the right to reject the relevant Entitlement and Acceptance Form. **Completed Entitlement and Acceptance Forms and cheques must be lodged on or before 5.00pm WST on the Closing Date being 30 MARCH 2010 at the Company's share registry:**

Postal Address: Computershare Investor Services Pty Ltd
 Locked Bag 2508
 Perth WA 6001

Delivery Address: Computershare Investor Services Pty Ltd
 Level 2
 45 St Georges Terrace
 PERTH WA 6000

2.3 ACCEPT FULL ENTITLEMENT

Shareholders who wish to accept their full entitlement must complete the accompanying Entitlement and Acceptance Form for the full number of New Shares entitled and the application monies as shown on the Form. Send the completed Entitlement and Acceptance Form and cheque for the application monies (being 5.5 cents per New Share) to the Share Registry before the Closing Date per Section 2.2 above.

If payment is made using BPAY, Shareholders must pay the application monies as shown on the Entitlement and Acceptance Form as set out in Section 2.2 above. There is no requirement to return the Entitlement and Acceptance Form.

2.4 APPLY FOR ADDITIONAL NEW SHARES

Shareholders who accept their full entitlement may also apply for additional New Shares on the same terms.

If payment is made using BPAY, Shareholders must pay the appropriate total application monies (full entitlement plus additional New Shares multiplied by 5.5 cents) as set out in Section 2.2 above. There is no requirement to return the Entitlement and Acceptance Form.

Shareholders must complete the accompanying Entitlement and Acceptance Form for the number of additional New Shares they wish to apply for and the total application monies. Attach a single cheque for the total application monies (full entitlement plus additional New Shares multiplied by 5.5 cents). Send the completed Entitlement and Acceptance Form and cheque to the Share Registry before the Closing Date per Section 2.2 above.

Allocation of Additional New Shares

The allocation of additional New Shares will be limited to any Shortfall. The Directors reserve the right to allocate any Shortfall at their absolute discretion or scale back applications as required. Further, the Directors reserve the right to place any Shortfall within 3 months of the Closing Date. No additional New Shares will be issued which will result in a Shareholder increasing their percentage interest in the Company above 20%. There is no assurance that Shareholders who apply for additional New Shares will be allocated their full application and may receive fewer than that applied for or none at all. Shareholders are bound to accept a lesser number of additional New Shares as determined by the Company. In this event, any surplus application monies will be refunded without interest as soon as practicable after the Closing Date.

2.5 ACCEPT PART ONLY OF ENTITLEMENT

Shareholders who wish to accept part only of their entitlement, should indicate on the accompanying Entitlement and Acceptance Form the number of New Shares they wish to accept and the appropriate application monies (calculated at 5.5 cents per New Share accepted). Shareholders must send the completed Entitlement and Acceptance Form with a cheque for the application monies to the Share Registry by the Closing Date per Section 2.2 above.

If payment is made using BPAY, Shareholders must pay the appropriate application monies (calculated at 5.5 cents per New Share accepted) as set out in Section 2.2 above. There is no requirement to return the Entitlement and Acceptance Form.

2.6 ENTITLEMENTS NOT TAKEN UP

If Shareholders do not wish to accept any of their entitlement they are not obliged to do anything. The number of Shares currently held and the rights attaching to those Shares will not be affected. However, their shareholding in the Company will be diluted with the subsequent issue of the New Shares. All entitlements not accepted will form part of the Shortfall which will be dealt with at the discretion of the Directors.

2.7 ENQUIRIES

Shareholders with questions on how to complete the Entitlement and Acceptance Form should contact the Share Registry at the addresses above or by telephone on 1300 725 613 or +61 3 9415 4000.

3 RISK FACTORS

In accepting their entitlements under the Offer, Shareholders will be subscribing for New Shares in the Company. As with any share investment, there are risks involved. This section identifies the major areas of risk associated with an investment in the Company, but should not be taken as an exhaustive list of the risk factors to which the Company and its Shareholders are exposed.

Investment Risk

The New Shares to be issued under the Offer should be considered speculative. They carry no guarantee as to payment of dividends, return of capital or the market value of the New Shares. The future success of the Company will be dependent upon a number of uncertain factors many of which are beyond the control of the Company and the Directors. Shareholders must make their own assessment of the likely risks and determine whether an investment in the Company is appropriate to their own circumstances.

Share Market Risk

The Company has applied to ASX for quotation of the New Shares. Share market conditions may affect the listed securities regardless of the operating performance of the Company. Many factors will affect the market price of the securities including local and international stock markets, movements in interest rates, commodity prices and currency fluctuations, general economic outlook and investor sentiment generally. The prices at which an investor may be able to trade the New Shares may be above or below the issue price paid for the New Shares.

Going Concern Risk

As disclosed in the Half-Year Report for the six months ended 31 December 2009, being the latest available public accounts for the Company, the Independent Auditor's Report referred to material uncertainties due to the incurrence of losses and current liabilities exceeding total assets as at 31 December 2009 which may cast significant doubt about the Company's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the ordinary course of business and at amounts that differ from those stated in the financial statements. The Independent Auditor's Report also referred to a material uncertainty regarding the recoverability of the intangible assets relating to engine development costs and a qualified auditor's conclusion with respect to the recoverability of trade receivables owing from Weichai Peterson Gas Engine Co Ltd as the auditors were unable to perform sufficient audit procedures in relation to the recoverability of these receivables at the value recorded in the accounts.

The Directors have taken steps to ensure the Company continues as a going concern. Most recently, the Company completed a share placement raising \$1,200,000 in mid-February 2010. The Company also completed a debt restructure with 698 as announced on 28 January 2010. Further, 698 has committed to subscribing \$1,100,000 under the Rights Issue and the Directors have committed to subscribing for their personal entitlements which will raise a further \$558,362 to support working capital. As disclosed in the Half-Year Report, 698 has resolved to continue to provide financial support to the Company.

Availability of Capital Risk

In funding the commercialisation activities to date the Company has relied on external sources of funding as the Company's capital and internally generated cashflow has not been sufficient to meet its capital requirements. The Directors expect that the proceeds of the Offer and recent share placement together with the debt restructure will provide sufficient capital resources to enable the Company to achieve its current stated business objectives. However, the Directors can give no assurances that such objectives will in fact be met without the need for future borrowings or additional capital raisings. Further, the ability to raise additional debt and/or equity capital as and when required by the Company will be influenced by numerous factors and may not be available on acceptable terms (if at all).

Contract Risks

The Company is and will be party to various contracts and agreements. There is the risk of financial failure or default by a party to these contracts or a participant in any of the joint ventures or other contractual relationships to which the Company is, or may become a party. Any breach or failure may lead to penalties or termination of the relevant contract by the Company. In addition, contracts entered into by the Company may include provisions which impose financial and/or other claims for non-performance of the Company's obligations or products supplied by the Company, such as warranties and indemnities.

Competition and Risk of Technological Obsolescence

The Company has significant competition in the sale of its current and future products from major engine vehicle manufacturers developing their own version of natural gas engines and multinational developers and providers of competing or similar technologies. There can be no assurance that technological advances by others will not render the Company's products or technologies obsolete or non-competitive.

Product Liability

The Company is exposed to potential product liability risks which are inherent in the sale and distribution of its products. The Company has appropriate liability insurance. There can be no assurance that appropriate insurance coverage will continue to be available or that any claim would not materially and adversely affect the business or financial condition of the Company.

Environmental Regulations

The adoption or repeal of legislation, such as that relating to environmental protection, could impact upon the future earnings of the Company. The future success of the Company is dependent, in part, on the acceptance by engine manufacturers of gas as an alternative fuel to conventional liquid fuels. The Company believes that the adoption in many countries of more stringent exhaust emission regulations applicable to vehicles will lead engine and vehicle manufacturers to produce engines incorporating less pollutive and more fuel efficient technology. However, there can be no assurance that more stringent regulations will support substantial growth in the Company's natural gas vehicle system business or that such regulations will be adopted, or if adopted, maintained or strictly enforced.

Uncertainties Associated with Expansion Opportunities

The Company's success will depend in part upon its ability to increase sales of its products and technology. Such success may also depend upon the Company's ability to develop and introduce new products and technology. The Company intends to continue to review the potential of its products globally. There can be no assurance that markets can be established and exploited successfully.

Patent and Licence Uncertainties

Proprietary rights relating to the Company's products will be protected from unauthorised use by third parties only to the extent that they are covered by valid and enforceable patents or are maintained in confidence as trade secrets. The Company does not have any patent protection in China.

Certain of the Company's patented technology consist of processes that may be performed by using components not purchased from the Company. Although such use may infringe the Company's patents, it may be difficult for the Company to detect and enforce the Company's rights in that event, and enforcement could involve significant use of the Company's resources. In addition, there can be no assurance that any pending patent applications filed by the Company will result in patents being issued or that any patents now or hereafter owned by the Company will afford protection against competitors.

There can also be no assurance that the Company's non-disclosure agreements with its employees and consultants will provide effective protection for the Company's trade secrets or other proprietary information. In the absence of patent protection, the Company's business may be adversely affected by competitors that independently develop functionally equivalent products and technology.

Country Risks

The Company is conducting business in a number of countries other than Australia including China and India. Conducting business in some countries carries a greater risk than conducting business in Australia because of risks including differing legal/taxation systems, regulatory environments, difficulties in staffing and managing foreign entities, unstable governments and sovereign risk. The Company is monitoring and managing these risks in an appropriate manner but it cannot guarantee that these risks will not cause loss to the Company.

Fluctuations in Foreign Exchange Rates

A significant portion of the Company's future potential revenue and expenditure will be denominated in foreign currencies, and is therefore subject to movements in exchange rates that may adversely impact the earnings of the Company.

Economic and Government Risks

The future viability of the Company is also dependent on a number of other factors affecting performance of all industries including, but not limited to, the following:

- general economic and political conditions in Australia and its major trading partners, including interest rates, currency exchange rates, inflation rates, commodity supply and demand factors;
- changes in government policies, taxation and corporate legislation in Australia and overseas;
- the strength of the equity and share markets in Australia and throughout the world; and
- natural disasters, social upheaval or war in Australia or overseas.

4 DEFINED TERMS

The following definitions apply throughout this Offer Document.

698	698 Capital International Ltd or its related entity 698 Capital Asia Pacific Ltd.
ASX	ASX Limited ABN 98 008 624 691 and, where the context permits, the Australian Securities Exchange operated by ASX Limited.
Business Day	any day defined to be a Business Day pursuant to the Listing Rules.
CHESS	ASX Clearing House Electronic Sub-register System.
Closing Date	5.00pm WST on 30 March 2010 or such later date as the Directors may determine subject to Listing Rules.
Company	Advanced Engine Components Limited ABN 67 009 081 770.
Corporations Act	Corporations Act 2001 (Cth).
Director	a director of the Company.
Eligible Shareholder	a Shareholder with a registered address in Australia, New Zealand, Hong Kong or Malaysia.
Listing Rules	the Listing Rules of the ASX.
Nathan	Mr Vivekananthan Nathan.
New Shares	Shares issued pursuant to the Offer.
Offer or Rights Issue	the non-renounceable prorata offer of New Shares to Shareholders on the basis of 1 New Share for every 3 Shares held on the Record Date at an issue price of 5.5 cents per New Share.
Offer Document	this offer document dated 2 March 2010.
Record Date	5.00pm WST on 3 March 2010 being the date for determination of entitlements of Shareholders to participate in the Offer.
Share	a fully paid ordinary share in the Company.
Shareholder	a holder of Shares in the Company.
Share Registry	Computershare Investor Services Pty Limited.
Shortfall	those New Shares for which valid applications have not been received by the Closing Date under the Offer.
WST	Western Standard Time.
\$ or A\$	Australian dollars. All amounts in this Offer Document are in Australian dollars unless stated.



ADVANCED ENGINE COMPONENTS LIMITED
ACN: 009 081 770

Computershare

Please return completed form to:
Computershare Investor Services Pty Limited
Locked Bag 2508 Perth
Western Australia 6001 Australia
Enquiries (within Australia) 1300 725 613
(outside Australia) 61 3 9415 4000
web.queries@computershare.com.au
www.computershare.com

000001
000
SAM
MR JOHN SMITH 1
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Securityholder Reference Number (SRN)



I 1234567890 I N D

Use a **black pen**.
Print in **CAPITAL** letters
inside the grey areas.

A	B	C	1	2	3
---	---	---	---	---	---

For your security keep your SRN/HIN confidential.

Entitlement and Acceptance Form (including Additional Securities)

This personalised form can only be used in relation to the securityholding represented by the SRN or HIN printed above. This is an important document and requires your immediate attention. If you are in doubt about how to deal with this document, please consult your financial or other professional adviser.

Non-Renounceable Entitlement Issue closing 5pm AWST on 30 March 2010

Non-Renounceable Entitlement Issue of 1 New Share for every 3 Shares registered and entitled to participate at the record date at an issue price of A\$0.055 per New Share.

Receipt of the slip below by 5pm AWST on 30 March 2010 with your payment, utilising the payment options detailed overleaf will constitute acceptance in accordance with the terms and conditions of the Offer Document dated 2 March 2010.

I/We enclose my/our payment for the amount shown below being payment of A\$0.055 per New Share. I/We hereby authorise you to register me/us as the holder(s) of the New Shares allotted to me/us, and I/we agree to be bound by the Constitution of the Company.

Securityholder Entitlement details	
Subregister	Issuer
Existing Shares entitled to participate at Record Date on 3 March 2010	XXX,XXX,XXX
Entitlement to New Shares on a 1 for 3 basis	XXX,XXX,XXX
Amount payable on full acceptance at A\$0.055 per New Share	X,XXX,XXX.XX
Entitlement Number	123456789012

ACE

2NRB

See back of form for completion guidelines

SAMP_PAYMENT_000000/000001/000001/5

PLEASE DETACH HERE

Please see overleaf for Payment Options

Ent: X,XXX Pay: X,XXX



Billor Code: 123456

Ref No: 1234 5678 9012 3456 78

B Number of New Shares applied for	C Number of additional Shares applied for	D Amount enclosed at A\$0.055 per New Share
<input type="text"/>	<input type="text"/>	A\$ <input type="text"/>

E Payment Details – Please note that funds are unable to be directly debited from your bank account				
Drawer	Cheque number	BSB number	Account number	Cheque amount
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	A\$ <input type="text"/>

Make your cheque or bank draft payable to Advanced Engine Components Limited

F Contact Details
Please provide your contact details in case we need to speak to you about this slip
Name of contact person
<input type="text"/>
Contact person's daytime telephone number
(<input type="text"/>) <input type="text"/>

1234567890123456+1234567890-1234+12

109468_00RXB

How to complete the Entitlement and Acceptance Form (including Additional Securities)

Please note that photocopies of this form will not be accepted. These instructions are cross-referenced to each section of the Entitlement and Acceptance Form.

A Details of your Entitlement based on your Securityholding at 5pm AWST on 3 March 2010 are shown in box A on the front of this Entitlement Form.

B New Securities Applied for

You can apply to accept either all or part of your Entitlement. Enter in box B the number of New Shares you wish to accept from your Entitlement.

Please ensure you complete Section B on the bottom of the form.

C Additional Securities Applied for

Enter the number of additional New Shares you wish to apply for (if any).

No Eligible Securityholder is assured of receiving any New Shares applied for in excess of their Entitlement and any amount by which applications from Eligible Securityholders exceed their Entitlements may be scaled back at Advanced Engine Components Limited's discretion, in such manner as Advanced Engine Components Limited considers is reasonable in the circumstances.

Please ensure you complete Section C on the bottom of the form.

D Acceptance Monies

Enter the total amount of acceptance monies payable. To calculate this amount, multiply the total number of New Shares applied for in box B, and if applicable, box C, by A\$0.055.

Please ensure you complete Section D on the bottom of the form.

E Payment Details

You can apply for shares by utilising the payment options detailed below. **Please note that funds are unable to be directly debited from your bank account.**

By making your payment using either electronic means or by cheque, bank draft or money order, you confirm that you:

- agree to all of the terms and conditions as detailed in the Offer Document dated 2 March 2010

Your cheque, money order or bank draft must be made in Australian currency and drawn on an Australian branch of a financial institution. Such payment must be made payable to Advanced Engine Components Limited and crossed "Not Negotiable". Payments not properly drawn may be rejected.

Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Acceptance form being rejected. Paperclip (do not staple) your cheque(s) to the form where indicated. Cash will not be accepted. Receipt of payment will not be forwarded.

F Contact Details

Enter the name of a contact person and telephone number. These details will only be used in the event that the registry has a query regarding the slip below.

The directors reserve the right to make amendments to this form where appropriate.

Lodgement of Acceptance

If you are applying for shares and your payment is being made using BPAY®, you do not need to return the slip below. Your payment must be received by no later than 3pm AWST on 30 March 2010. Applicants should be aware that their own financial institution may implement earlier cut off times with regards to electronic payment, and should therefore take this into consideration when making payment. Ensure you have read and accurately followed your banking institution's BPAY FAQ or other instructions prior to making multiple payments for multiple holdings under this offer. Neither CIS nor Advanced Engine Components Limited accepts any responsibility for loss incurred through incorrectly completed BPAY payments. It is the responsibility of the applicant to ensure that funds submitted through BPAY are received by this time.

If you are paying by cheque, bank draft or money order, the slip below must be received by Computershare Investor Services Pty Limited (CIS) Perth by no later than 5pm AWST on 30 March 2010. You should allow sufficient time for this to occur. Return the slip below with cheque attached.

Neither CIS nor the Company accepts any responsibility if you lodge the slip below at any other address or by any other means.

Privacy Statement

Personal information is collected on this form by CIS, as registrar for securities issuers ("the issuer"), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by the issuer in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS using the details provided on the front of this form or e-mail privacy@computershare.com.au

If you have any enquiries concerning this form or your entitlement, please contact CIS on 1300 725 613.

This form may not be used to notify your change of address. For information, please contact CIS on 1300 725 613 or www.computershare.com (Certificated/Issuer Sponsored Holders only).

CHESS holders must contact their Controlling Participant to notify a change of address.

© Registered to BPAY Pty Ltd ABN 69 079 137 518

Payment Options:

IB
PAY
Bill Code: 123456
Ref No: 1234 5678 9012 3456 78

Telephone & Internet Banking – BPAY

Call your bank, credit union or building society to make this payment from your cheque or savings account. More info: www.bpay.com.au



Advanced Engine Components Limited
Computershare Investor
Services Pty Limited
Locked Bag 2508 Perth
Western Australia 6001
Australia



Entitlement Number: <xxxxxxxxxx>

SAMPLE CUSTOMER
SAMPLE STREET
SAMPLE STREET
SAMPLE STREET
SAMPLE STREET
SAMPLETOWN TAS 7000

