Australian Biodiesel Group Limited and Controlled Entities

ABN 60 096 687 839

APPENDIX 4E
PRELIMINARY FINAL REPORT

Full year ended ('current period')				**31 December 2006**
Prior corresponding period ('pcp')				**31 December 2005**
Results for announcement to the market				$A'000
Revenue from ordinary activities	up	318%	to	18,329
Loss from ordinary activities after tax attributable to members	up	1,941%	to	(13,898)
Net loss for the period attributable to members	up	1,941%	to	(13,898)

	31 December 2006	31 December 2005
Net tangible assets per security (cents)	0.17	0.19

Note: Prior corresponding period comparatives are for the 6 months to 31 December 2005

Financial Statements

The financial statements included within this report are in the process of being audited. An unqualified audit report is anticipated on finalisation of the annual report.

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Appendix 4E

Operating Results

The consolidated loss of the economic entity after providing for income tax amounted to $13,898,000.

Review of Operations

The result for the Australian Biodiesel Group Limited (ABG) for the 12 months to 31 December 2006 was a loss of $13,898,000. The result included the bad debt provision in relation to a $2 million technology license fee, previously recognised by the Company.

Revenue from the sale of biodiesel for the twelve month period was $18,329,000. Sales of biodiesel amounted to 17.5 million litres, well below the expectations of the Company.

The poor financial performance of ABG was primarily due to:

- Changes to fuel excise laws, diminishing (and in some cases eliminating) the cost advantage previously enjoyed by biodiesel over mineral diesel.
- Declining world oil prices in the second half of 2006, causing the sale price of biodiesel to be less attractive to customers.
- The extended drought in eastern Australia over 2006, forcing the cost of feedstocks to rise.
- The slower than anticipated uptake of biodiesel by oil majors and large customers.
- Production issues at ABG sites.

ABG completed the construction of the Narangba production facility in June 2006 and the site commenced the trial production of biodiesel during July 2006. By the date of this report, more than 5 million litres of biodiesel had been produced and sold from Narangba.

Financial Position

The net assets of the economic entity have increased by $4,473,000 from 31 December 2005 to $25,227,000 at 31 December 2006. This increase has resulted from the following factor:

- The company raised capital of $21,186,000 excluding transaction costs during the period which funded the construction of the Narangba plant.
- Property, Plant & Equipment additions for the year amounted to $22,990,000.

Dividends Paid or Recommended

There were no dividends paid or recommended during the course of the financial year. The directors intend to pay dividends when the profitability of the business permits and subject to the operational requirements of the economic entity.

Australian Biodiesel Group Limited and Controlled Entities

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Appendix 4E

Future Developments, Prospects and Business Strategies

To further improve the economic entity's results, the ABG Board has undertaken an extensive review of regulatory and market changes and revised the Company's strategy to address the evolving environment. Senior management has been restructured in line with the revised strategy. The major elements of the revised strategy are to:

- Produce biodiesel suitable for mass blending in mineral diesel at the highest ratio that fully complies with the Australian diesel standard (nominally about B20). This maximises the excise relief available.
- Produce biodiesel using least cost feedstocks such as tallow and used cooking oil and introduce process modifications to ensure high quality.
- Only sell to those customers who understand and abide by the new regulatory regime and who therefore must have the ability to properly blend, store and use (or on-sell) the blended fuel, including ensuring it meets user expectations and Australian standard guidelines for operability in colder weather.
- Increase management expertise in procurement, production, technology, sales and other core areas.
- Revise feedstock procurement strategies, stabilising pricing and continuity of supply through long-term contracting.
- Reduce overheads and production costs by shifting all manufacturing to the Narangba facility.

Going Concern

Notwithstanding the loss for the year and the deficit of net current assets, the financial statements have been prepared on a going concern basis, as the directors have considered the cash flow requirements for the group for the next 12 months and are satisfied that the group will be able to meet its debts as and when they become due and payable. This assessment takes into account a proposed capital raising which is in the process of being negotiated, which is anticipated to be finalised prior to completion of the annual report.

Australian Biodiesel Group Limited and Controlled Entities

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Income statement for the financial year ended 31 December 2006

	Note	Economic Entity	
		12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000
Sales Revenue	2	18,329	4,385
Cost of Sales		(17,709)	(2,046)
Gross Profit		620	2,339
Other income	2	45	59
Sales and marketing expense		(819)	(145)
In-direct operating overheads		(7,211)	(1,488)
Administration expense		(4,437)	(1,418)
Finance costs		(52)	(28)
Bad and doubtful debt expense		(2,000)	-
Other expenses		(127)	-
		(14,646)	(3,079)
Loss before income tax	3	(13,981)	(681)
Income tax credit	4	83	-
Loss attributable to members of the economic entity		(13,898)	(681)
Basic (loss) per share (cents per share)	5	(11.63)	(11.40)
Diluted (loss) per share (cents per share)	5	(11.63)	(11.40)

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

Australian Biodiesel Group Limited and Controlled Entities

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Balance sheet as at 31 December 2006

	Note	Economic Entity 2006 $000	Economic Entity 2005 $000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	234	12,147
Trade and other receivables	7	1,642	3,043
Inventories	8	4,150	210
Other current assets	9	772	4,558
TOTAL CURRENT ASSETS		6,798	19,958
NON-CURRENT ASSETS			
Property, plant and equipment	11	25,724	3,523
Intangible assets	12	2,542	30
TOTAL NON-CURRENT ASSETS		28,266	3,553
TOTAL ASSETS		35,064	23,511
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	5,460	1,832
Short-term borrowings	14	3,362	589
Current tax liabilities	15	176	-
Short-term provisions	16	687	314
TOTAL CURRENT LIABILITIES		9,685	2,735
NON-CURRENT LIABILITIES			
Long-term borrowings	14	64	-
Long-term provisions	16	88	22
TOTAL NON-CURRENT LIABILITIES		152	22
TOTAL LIABILITIES		9,837	2,757
NET ASSETS		25,227	20,754
EQUITY			
Issued capital	17	43,142	24,892
Reserves		121	-
Retained earnings		(18,036)	(4,138)
TOTAL EQUITY		25,227	20,754

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

Australian Biodiesel Group Limited and Controlled Entities

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Statement of changes in equity for the financial year ended 31 December 2006

Economic Entity

	Ordinary Share Capital	Convertible Notes	Foreign currency translation Reserve	Option Reserve	Retained Earnings	Total
	$000	$000	$000	$000	$000	$000
Balance at 1 July 2005	**3,369**	**1,332**	**-**	**-**	**(3,457)**	**1,244**
Net income recognised directly in equity	-	-	-	-	-	-
Loss for the period	-	-	-	-	(681)	(681)
Total recognised income and expenses for the period	-	-	-	-	(681)	(681)
Shares issued during the period	20,192	2,189	-	-	-	22,381
Transaction costs	(2,190)	-	-	-	-	(2,190)
Conversion of notes to ordinary shares	3,521	(3,521)	-	-	-	-
	21,523	(1,332)	-	-	(681)	19,510
Balance at 31 December 2005	**24,892**	**-**	**-**	**-**	**(4,138)**	**20,754**
Movement in foreign currency translation	-	-	26	-	-	26
Net income recognised directly in equity	-	-	26	-	-	26
Loss for the period	-	-	-	-	(13,898)	(13,898)
Total recognised income and expenses for the period	-	-	26	-	(13,898)	(13,872)
Shares issued	21,186	-	-	-	-	21,186
Transaction costs	(2,936)	-	-	-	-	(2,936)
Issue of options	-	-	-	95	-	95
Balance at 31 December 2006	**43,142**	**-**	**26**	**95**	**(18,036)**	**25,227**

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

Australian Biodiesel Group Limited and Controlled Entities

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Cash flow statement for the financial year ended 31 December 2006

	Note	Economic Entity	
		12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		17,449	1,315
Payments to suppliers and employees		(29,367)	(3,816)
Interest received		160	79
Income tax paid		(37)	-
Income tax refund		201	-
Finance Costs		(52)	-
Net cash provided by / (used in) operating activities	19(b)	(11,646)	(2,422)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		22	161
Purchase of property, plant and equipment		(19,841)	(2,737)
Payment for deferred research & development costs		(285)	(30)
Payment for business acquired		-	(4,200)
Net cash (used in) investing activities		(20,104)	(6,806)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		19,936	22,381
Costs associated with share issue		(2,936)	(2,190)
Proceeds from borrowings		1,617	473
Repayment of borrowings		(384)	(562)
Net cash provided by financing activities		18,233	20,102
Net increase/(decrease) in cash held		(13,517)	10,874
Cash at the beginning of the financial year		12,147	1,273
Cash at the end of the financial year	19(a)	(1,370)	12,147

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

	Economic Entity	
	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000
2. Revenue		
Operating activities		
- sale of goods	17,993	2,280
- rendering of services	176	26
- sale of licence agreements	-	2,000
- interest received	160	79
Total Operating Revenue	18,329	4,385
Non-operating activities		
- gain on disposal of property, plant & equipment	45	59
Total Other Income	45	59
(a) Interest revenue from:		
- other persons	160	79
Total interest revenue	160	79

3. Loss before income tax

(a) Expenses

	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000
Cost of sales	17,709	2,046
Rental expense on operating leases		
- minimum lease payments	560	35
Employee benefits expenses	6,351	1,034
Depreciation expense	913	84
Finance costs		
- External	52	28
Total Finance Costs	52	28
Foreign exchange loss	19	-
Bad and doubtful debts		
- Trade receivables	2,129	-
Total bad and doubtful debts	2,129	-

4. Income Tax Expense

	Economic Entity	
	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000
(a) The components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
Recoupment of prior year tax losses	-	-
Under provision in respect of prior years	-	-
	-	-
(b) The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (31 Dec 2005: 30%)		
- economic entity	4,194	204
	4,194	204
Add:		
Tax effect of:		
Deductions not included in loss for the period (research & development)	-	20
Non-deductible expenses	-	(2)
	-	18
Less:		
Tax effect of:		
Income tax (over)/under provided in prior year	(201)	-
Income benefit not carried forwarded to later years	(4,076)	222
Income tax attributable to parent entity	83	-

5. Earnings per share

(a) Reconciliation of Loss

	Economic Entity	
	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000
Loss	(13,898)	(681)
Loss used to calculate basic EPS	(13,898)	(681)
Loss used in the calculation of dilutive EPS	(13,898)	(681)
	No.	No.
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	119,459,872	5,972,096
Weighted average number of ordinary shares outstanding during the year used in calculating diluted EPS	119,459,872	5,972,096

6. Cash Assets

	Economic Entity	
	2006 $000	2005 $000
Cash at bank and in hand	234	2,147
Bank deposits	-	10,000
	234	12,147

The effective interest rate on the bank deposits was 4.5% (31 Dec 05: 5.1%); these deposits are at call.

7. Trade and other receivables

CURRENT		
Trade receivables	3,521	3,059
Less: Provision for impairment of receivables	(2,073)	(16)
	1,448	3,043
Other	194	-
	1,642	3,043

8. Inventories

CURRENT		
At cost		
Raw materials and stores	1,342	153
Finished goods	692	57
Construction work in progress	2,116	-
	4,150	210

	Economic Entity	
	2006	2005
	$000	$000
9. Other Assets		
CURRENT		
Amounts receivable from controlled entities	-	-
Prepayment for Business Acquisition	-	4,200
Prepayments - general	332	-
Other	440	358
	772	4,558

10. Controlled Entities

(a) Controlled Entities

	Country of Incorporation	Percentage Owned		Carrying Amount of Investment	
		31 Dec 06	31 Dec 05	31 Dec 06	31 Dec 05
		%	%	$000	$000
Parent Entity:					
Australian Biodiesel Group Limited	Australia	-	-	-	-
Subsidiaries of Australian Biodiesel Group Limited					
ABG USA Ltd	USA	100	100	-	-
Advanced Biodiesel Group Canada Limited	Canada	100	100	-	-
Scanline Pty Ltd	Australia	100	-	-	-
				-	-

** Percentage of voting power is in proportion to ownership*

11. Property, plant and equipment

	Economic Entity 2006 $000	Economic Entity 2005 $000
LAND AND BUILDINGS		
Freehold land:		
- at cost	700	433
Total Land	700	433
Buildings:		
- at cost	4,166	164
Less accumulated depreciation	(39)	(11)
Total Buildings	4,127	153
Total Land and Buildings	4,827	586
PLANT AND EQUIPMENT		
Plant and equipment:		
At cost	22,339	3,218
Accumulated depreciation	(1,631)	(335)
	20,708	2,883
Leasehold improvements		
At cost	207	56
Accumulated depreciation	(18)	(2)
Total Leasehold Improvements	189	54
Total Plant and Equipment	20,897	2,937
Total Property, Plant and Equipment	25,724	3,523

Notes to the financial statements for the financial year ended 31 December 2006

	Economic Entity 2006 $000	Economic Entity 2005 $000
12. Intangibles		
NON CURRENT		
Development costs	315	30
Goodwill	2,227	-
	2,542	30
13. Trade and other payables		
CURRENT		
Trade payables	3,874	1,681
Sundry payables and accrued expenses	1,586	151
	5,460	1,832
14. Borrowings		
CURRENT		
Bank overdraft	1,604	-
Commercial loan	1,553	-
Related parties	-	210
Other	205	379
	3,362	589
NON CURRENT		
Commercial loan	64	-
	64	-
15. Tax		
Liabilities		
CURRENT		
Income Tax	176	-
	176	-

16. Provisions

Economic Entity

	Employee Entitlements $000	Other $000	Total $000
Opening balance as at 1 July 2005	90	-	90
Additional provisions	246	-	246
Amounts used	-	-	-
Unused amounts reversed	-	-	-
Balance as at 31 December 2005	336	-	336
Opening balance as at 1 January 2006	336	-	336
Additional provisions	586	-	586
(Amounts used)	(147)	-	(147)
Unused amounts reversed	-	-	-
Balance as at 31 December 2006	775	-	775

Analysis of Total Provisions

	Economic Entity	
	2006	2005
	$000	$000
Current	687	314
Non-current	88	22
	775	336

17. Issued Capital

		Economic Entity	
		2006	2005
		$000	$000
136,845,262 (31 December 2005: 110,119,059) fully paid ordinary shares	(a)	43,142	24,892
		43,142	24,892

The company has authorised share capital amounting to 136,845,262 ordinary shares of no par value

(a) Ordinary Shares

	Economic Entity	
	2006	2005
	No.	No.
At the beginning of the reporting period	110,119,059	1,215,719
Shares issued during year		
- 1 July 2005 to 31 December 2005	-	108,903,340
- 28 April 2006	3,846,154	-
- 29 May 2006	1,923,077	-
- 30 June 2006	1,923,077	-
- 3 August 2006	1,923,077	-
- 31 August 2006	2,884,615	-
- 28 September 2006	3,880,965	-
- 2 October 2006	1,859,006	-
- 31 October 2006	8,486,232	-
At reporting date	136,845,262	110,119,059

	$000	**$000**
At the beginning of the reporting period	24,892	3,369
Shares issued during year		
- 1 July 2005 to 31 December 2005	-	23,713
- 28 April 2006	4,000	-
- 29 May 2006	2,000	
- 30 June 2006	2,000	-
- 3 August 2006	2,000	-
- 31 August 2006	3,000	-
- 28 September 2006	4,036	-
- 2 October 2006	1,250	-
- 31 October 2006	2,900	-
Share Issue Costs		
- 6 December 2005		(2,190)
- 30 June 2006	(10)	-
- 31 October 2006	(2,926)	
At reporting date	43,142	24,892

17. Issued Capital (continued)

(a) Ordinary Shares (continued)

On 28 April 2006 the company issued new shares to Transfield Pty Ltd per the agreement dated 29 March 2006.
On 29 May 2006 the company issued new shares to Transfield Pty Ltd per the agreement dated 29 March 2006.
On 30 June 2006 the company issued new shares to Transfield Pty Ltd per the agreement dated 29 March 2006.
On 3 August 2006 the company issued new shares to Transfield Pty Ltd per the agreement dated 29 March 2006.
On 31 August 2006 the company issued new shares to Transfield Pty Ltd per the agreement dated 29 March 2006.
On 28 September 2006 the company issued new shares to Transfield Pty Ltd per the agreement dated 29 March 2006.
On 2 October 2006 the company issued new shares to Oleo Industries Pty Ltd for part settlement of Moree crushing mill.
On 31 October 2006 the company issued new shares to Transfield Pty Ltd per the agreement dated 29 March 2006.
Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

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

18. Segment Reporting

Primary Reporting – Geographical Segments

	Australia		Americas		Economic Entity	
	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000
REVENUE						
External sales	18,089	2,365	-	2,000	18,089	4,365
Other segment	-	-	-	-	-	-
Total sales revenue	18,089	2,365	-	2,000	18,089	4,365
Unallocated revenue					286	79
Total revenue from ordinary activities					18,375	4,444
RESULT						
Segment Result	(6,771)	(1,552)	(284)	2,000	(7,055)	448
Unallocated expenses net of unallocated revenue					(6,874)	(1,101)
Borrowing costs					(52)	(28)
Loss before tax from ordinary activities					(13,981)	(681)
Income tax expense					83	-
Loss after income tax from ordinary activities					(13,898)	(681)
ASSETS						
Segment assets	28,239	4,806	2,117	2,000	30,356	6,806
Unallocated assets					4,708	16,705
Total assets					35,064	23,511
LIABILITIES						
Segment liabilities	7,745	2,391	179	-	7,924	2,391
Unallocated liabilities					1,913	366
Total liabilities					9,837	2,757
OTHER						
Acquisition of non-current segment assets	20,873	2,737	2,117	-	22,990	2,737
Depreciation and amortisation of segment assets	1,349	84	-	-	1,349	84

Secondary Reporting – Business Segments

	Revenue		Carrying Amount of Assets		Acquisition of Property, Plant and Equipment	
	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000
Biodiesel	17,992	2,366	25,068	16,809	20,378	2,190
Technology	-	2,000	2,117	2,000	-	-
Unallocated	382	78	7,879	4,702	2,612	547
	18,374	4,444	35,064	23,511	22,990	2,737

18. Segment Reporting (continued)

Geographical segments

The economic entity has the following two geographical segments:

- Australia
- Americas

These geographical segments are based on the economic entities business locations and management reporting structures. Segment assets are based on the geographical location of assets.

Business segments

The economic entity has the following two business segments:

- Biodiesel – Sale of Biodiesel fuel and other related products
- Technology – Development and sale of Biodiesel plant projects, including related licences for the right to design, construct and build Biodiesel plants.

	Economic Entity	
	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000

19. Cash Flow Information

(a) Reconciliation of Cash

Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000
Cash on hand	234	12,147
Bank Overdrafts	(1,604)	-
	1,370	12,147

(b) Reconciliation of cash flow from operations with profit after tax

	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000
Loss after income tax	(13,898)	(681)
Cash flows excluded from profit from ordinary activities attributable to operating activities		
(Profit)/Loss on sale of plant and equipment	(45)	(59)
Non-cash flows in loss from ordinary activities		
Depreciation	913	84
Bad debt-provision	2,057	-
Option issue expensed	94	-
Changes in assets and liabilities		
(Increase)/Decrease in trade and term receivables	(656)	(3,053)
(Increase)/Decrease in other assets	(414)	(302)
(Increase)/Decrease in inventories	(3,940)	(71)
Increase/(Decrease) in trade payables and accruals	3,628	1,399
Increase/(Decrease) in provisions	439	261
Increase/(Decrease) in tax payable	176	-
Cashflow used in operations	(11,646)	(2,422)

19. Cash Flow Information (continued)

	Economic Entity	
	12mths to 31 Dec 06 $000	6mths to 31 Dec 05 $000
(c) Credit Standby Arrangements with Banks		
Total facilities available:		
Bank guarantees	110	-
Bank loans	5,000	-
Bank overdrafts	-	1,000
	5,110	1,000
Facilities utilised at balance date:		
Bank guarantees	110	-
Bank loans	1,591	-
Bank overdrafts	-	
	1,701	-
Facilities not utilised at balance date:		
Bank guarantees	-	-
Bank loans	3,409	-
Bank overdrafts	-	-
	3,409	-