Australian Biodiesel Group

Annual General Meeting
25 May 2007

Chairman's report

<u>AGM format</u>

Chairman - Dr John Keniry

- **Update on corporate initiatives**
- **International and Australian markets**
- **Company status**

Chief Executive Officer – Mr Martin Earp

- **Strategy and restructure**
- **Operations and sales**

Financial Statements and Report

Ordinary Resolutions

Chairman's report

Corporate initiatives update

Rights Issue
- Shareholder approval at EGM
- Offer closes Monday 28 May

Alternative Director candidates
- Withdrawal of nominations
- No alternative funding offer
- Resolutions 1, 2, 3 will not be put to today's meeting

ArcLight Joint Venture
- Termination by mutual agreement
- Provides ABG improved flexibility

Chairman's report

Market comparison:

United States

- 10X production growth since 2004, to 950m litres sold in 2006.

Europe

- 5.75% all fuel to be blended with biofuel by 2010 – 10b litres required.

Australia

- Stagnant sales, production at 10% of installed capacity in 2006.

Domestic regulatory retreat:

- Excise changes reduce or eliminate price advantage.
- Ineffective 350ml target.
- Concessions to BP for Renewable Diesel, exacerbating over-supply.
- 5% blend restriction proposal, generating confusion.

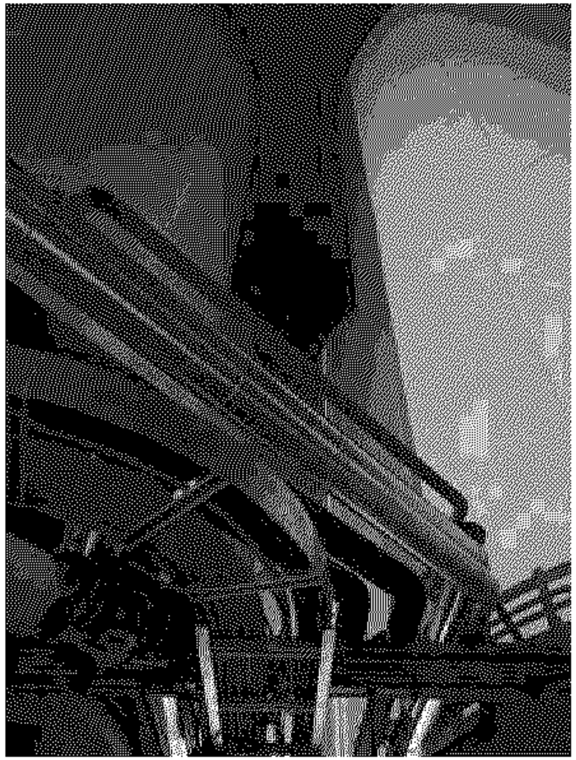
Chairman's report

Trading factors

Commodity price rises
- **Drought in Australia**
- **International demand**

Crude oil price decline
- **15% decline late 2006**
- **Reduced competitive position**

Distributor infrastructure
- **Reluctance to invest in face of regulatory uncertainty.**



Chairman's report

Company status

Achievements	Challenges
✓ Business model & product revised to new regulatory environment.	✘ Regulatory retreat and market uncertainty
✓ Strong relationships developed with quality distribution chain.	✘ 5% blending restriction proposal
✓ ABG technology demonstrated adaptability to feedstock change	✘ Commodity price movements
✓ Improved capability for sale of plant design and operating protocols.	✘ Distributor infrastructure investment
✓ Largest and most experienced Australian producer.	

Chief Executive's Update

Mr Martin Earp

Comparison 05 and 06

	2006 (12 months)	2005 (6 months)
Production	**17.5m litres**	**4.5m litres**
Revenue	**$18.32m**	**$4.44m**
NPAT	**$(13.9)m**	**$(0.68)m**

2006 review

Original business strategy

- Sell B100 fuel directly to end users.
- End users self blend to high ratio of bio-diesel.
- B100 needed to have “soft-oils” to lower cloud point.
- Provide big discount on mineral diesel price.
- Discount overcame operational and administrative issues.

External issues

- Feedstock price
- Diesel price
- Change to Tax Act July 06

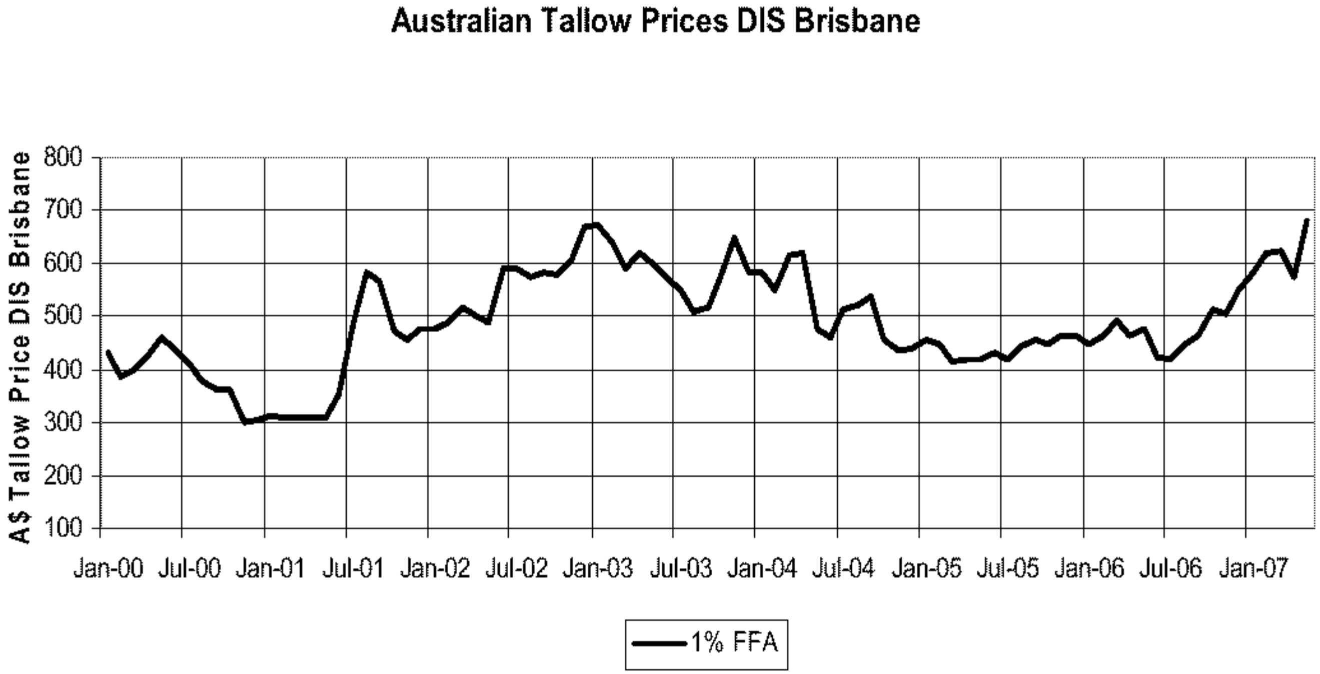
Internal issues

- Plant performance
- Management capabilities

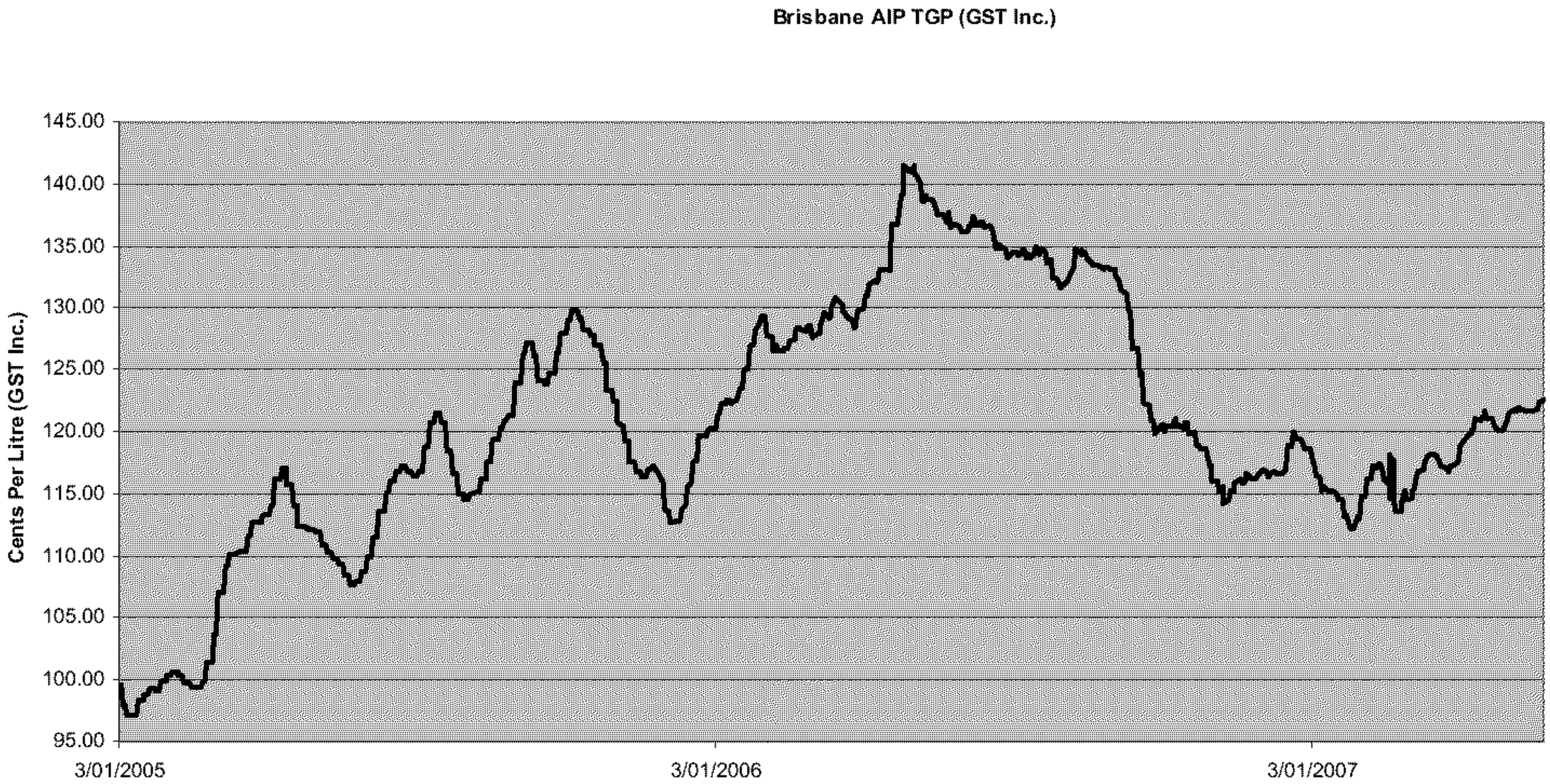
Feedstock prices

Feedstock prices (per tonne)

Type	2006	2005
Tallow	$600	$464
Canola	$1,200	$750
Soy	$1,200	$850
Palm	$900	$736
CH3OH	$725	$375



Diesel price (TGP Brisbane)



Amendment to Tax Act

Amendment	*Impact*
Removal of full excise rebate for B49 blends.	Discount to mineral diesel reduced or eliminated for many consumers.
Confirmed requirement on blenders for blending license and bonded site.	Restricts number of customers biodiesel producers can sell to.
Biodiesel quality reporting requirement to access rebate.	Reporting requirements unclear in Act, causing confusion.

Narangba plant performance

Issue	*Impact*
Commissioning period longer than anticipated.	Required ABG to ship biodiesel from NSW plant to QLD.
Performance of plant below expectations.	Increased cost of production due to low yields, greater use of catalyst, high costs of waste water removal.
Low production rate – dictated by lack of demand.	Overheads are spread over lower volume, thus adding greatly to cost per litre.

Management capability

Issue	*Impact*
Lack of operational experience and documentation.	Inexperience led to poor practices and lack of up-to-date operational data to allow good decision making.
Insufficient management resource for rapidly expanding and increasingly complex business.	The purchase of Scanline and Moree, combined with two plants stretched resources.

Addressing issues

- ✓ **Feedstock** – Fixed price purchasing Oct 06 to Feb 07. Revised supply arrangements going forward. Ceased experimental feedstock program.
- ✓ **Sales** – Switched from fixed price contracts to floating contracts linked to mineral diesel price, with floors to protect against selling at a loss.
- ✓ **Tax** – Adapted strategy to fit with current tax arrangements.
- ✓ **Plant performance** – Investment in plant has delivered improvements in performance (yield – 98+%, methanol use - 13%).
- ✓ **Management** – Mothballed Berkeley Vale and Moree, and greatly reduced staff and overhead costs – this will continue over 2007.

Strategy revision

Activity	*Objective*
Product strategy	**Manufacture biodiesel for purpose of blending to meet Australian Diesel Standard. Sell only to quality, licensed blenders at bonded sites.**
Sales strategy	**Educate distributors and end-users on the benefits of Diesel Standard biodiesel blends.**
Technology strategy	**Enhance ABG technology sale to full service offering. Continue development and technology marketing activities.**

Product strategy

ABG product:

- Manufacture biodiesel for the sole purpose of blending in diesel to achieve the Australian Diesel Standard.
- 100% tallow formula, to achieve lowest cost production.
- Instigate ISO9001 quality standard at production facility.

Diesel Standard blends:

- ✓ Typically 5% to 20% biodiesel
- ✓ Price competitive
- ✓ Quality, performance of diesel
- ✓ Tailpipe emission reductions
- ✓ Enhanced lubricity
- ✓ Maintain cold weather performance
- ✓ Stored, used as diesel

Sales strategy

Sales activity:

- **Restrict supply to quality distribution partners.**
- **Distributors capable of properly storing, blending & distributing large volumes of fuel.**
- **Strong relationships now in place.**
- **Education activities to target consumers to create customer pull.**

End-use customer categories
✓ Logistics
✓ Transit
✓ Government
✓ Mining
✓ Marine
✓ Construction
✓ Agriculture
✓ Power generation

Technology sales

Technology strategy

- Full service offering to international developers.
- Offering includes plant design, operating protocols, personnel training, business systems.
- ABG in discussions with project proponents, mostly in Asia.

North America

- Tri-Cities project, Illinois, progressing towards financial assessment.
- Assessing options for carrying project forward.
- Calgary project – still awaiting finance.

View ahead

Outlook

- As flagged in Rights Issue Prospectus, sales depressed over Q1 07 – as market adapts to new regulation.

- Lower-cost biodiesel production commenced May 2007.

- Significant one-off cost associated with restructuring & corporate actions to impact 2007.

- Profitability expected by 2008.