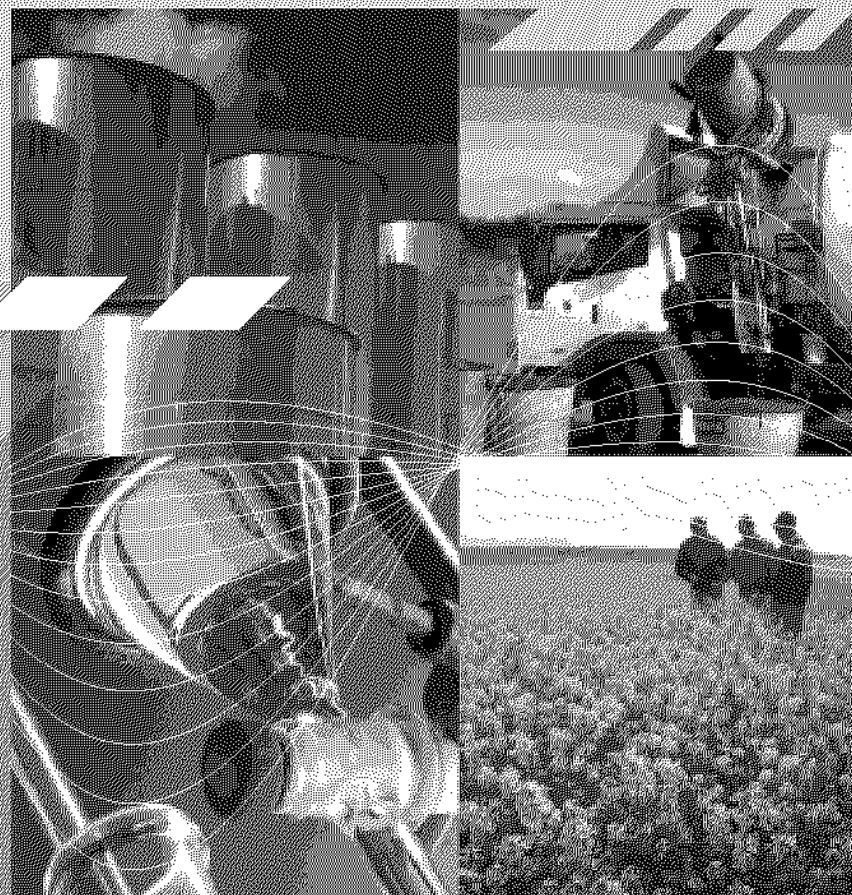




AUSTRALIAN RENEWABLE  
FUELS LIMITED

ABN 66 096 782 188



## PROSPECTUS

For the issue of 20,000,000 Shares  
at an issue price of \$1.00 each to  
raise a total of \$20,000,000

Underwriter  
SHAW Stockbroking Limited  
(APN 24 003 291 583)

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## Indicative Timetable

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Date for determining the entitlement to Shares under the Priority Offer of Eligible Amadeus Shareholders	21 March 2005
Priority Offer and Public Offer Opens	4 April 2005
Closing date for receipt of applications under the Priority Offer *	26 April 2005
Closing date for receipt of applications under the Public Offer *	29 April 2005
Allocation of Shares and dispatch of shareholder statements under the CHES system	5 May 2005
Anticipated date of listing on the ASX subject to ASX approval	6 May 2005

\* Subject to the Corporations Act and the Listing Rules, the Directors reserve the right to close the Priority Offer and Public Offer early or extend the closing date.

NOTE: The assets shown in the pictures on the cover of this Prospectus and on pages 3, 7, 8, 9, 12, 13, 16 and 17 are not assets of the Company.

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## Important Information

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This Prospectus is dated 21 March 2005. A copy of this Prospectus was lodged with the ASIC on 21 March 2005. The ASIC takes no responsibility for the contents of this Prospectus.

No Shares will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus. Application will be made within seven days after the date of this Prospectus for permission for the Shares offered by this Prospectus to be listed for quotation on ASX.

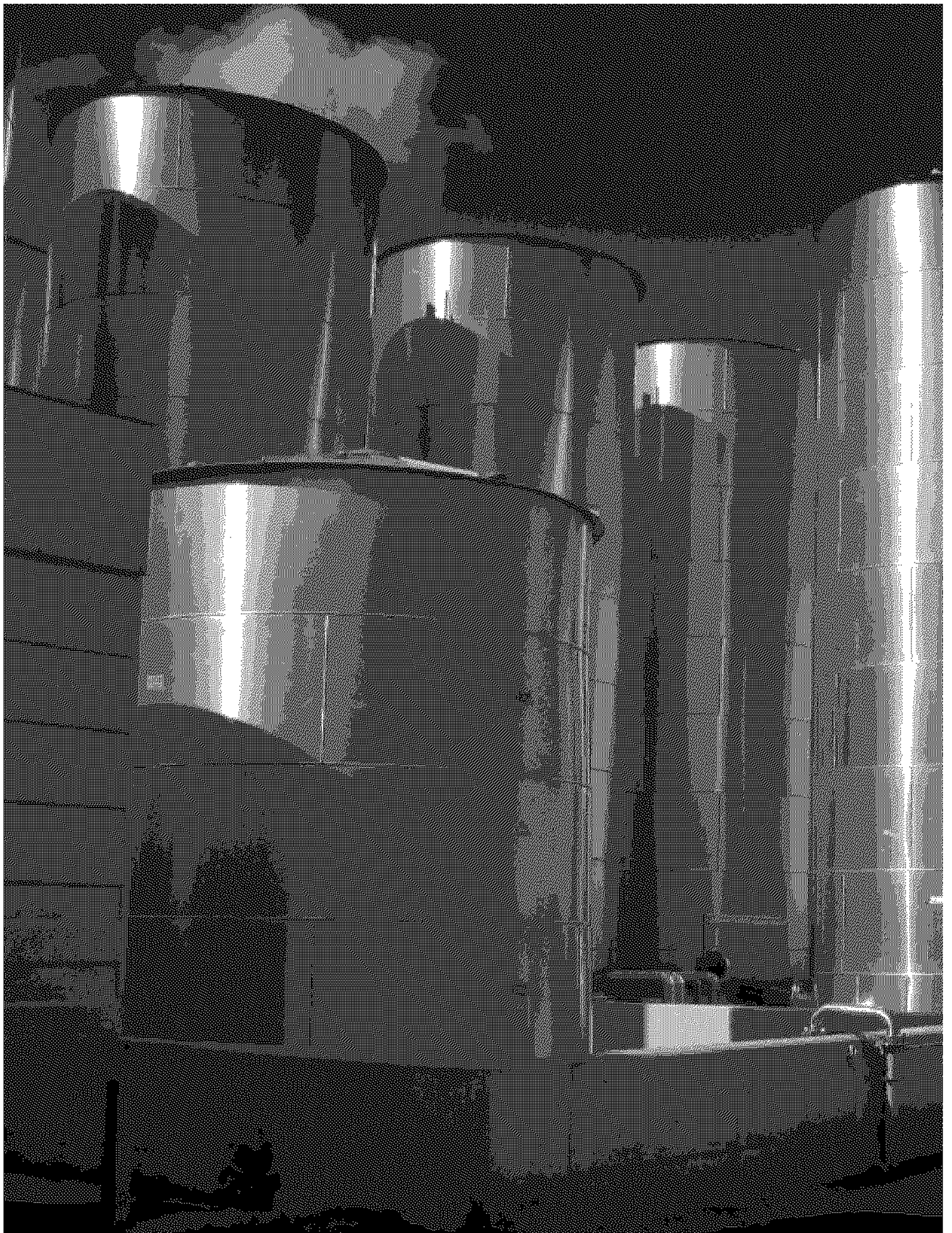
The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law. This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make an offer. No action has been taken to register or qualify the Shares, or otherwise permit a public offering of Shares, in any jurisdiction outside Australia.

Applicants should read this document in its entirety and, if in any doubt, consult with their professional advisers before deciding whether to apply for Shares. There are risks associated with an investment in the Company and the Shares offered under this Prospectus must be regarded as a speculative investment. The Shares offered under this Prospectus carry no guarantee with respect to return on capital investment, payment of dividends or future value.

This Prospectus will be issued in paper form and as an Electronic Prospectus, which may be viewed online at [www.arfuels.com.au](http://www.arfuels.com.au). The Offer is only available to persons receiving an electronic version of this Prospectus in Australia. The Corporations Act prohibits any person from passing onto another person the Application Form unless it is attached to or accompanied by a complete and unaltered version of this Prospectus. During the Offer Period, any person may obtain a hard copy of this Prospectus by contacting the Company by email at [info@arfuels.com.au](mailto:info@arfuels.com.au).

In accordance with Chapter 6D of the Corporations Act this Prospectus is subject to an Exposure Period of seven days from the date of lodgement with the ASIC. This period may be extended by the ASIC for a further period of up to seven days. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. If this Prospectus is found to be deficient, Applications received during the Exposure Period will be dealt with in accordance with Section 724 of the Corporations Act. Applications received prior to the expiration of the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on Applications received during the Exposure Period and all Applications received during the Exposure Period will be treated as if they were simultaneously received on the Opening Date.

Certain abbreviations and other defined terms are used throughout this Prospectus. Defined terms are generally identifiable by the use of an upper case first letter. Details of the definitions and abbreviations used are set out in Section 13.0.



Tank storage -  
Biodiesel plant  
(Zistersdorf, Austria)





21 March 2005



Dear Investor,

It is my pleasure to extend this opportunity to you to become a Shareholder in Australian Renewable Fuels Limited (ARF).

The development of ARF and the Australian biofuels industry has been a vision for your Company's founders and Directors for many years. The strength of the business model they have developed was recently recognised by the Australian Federal Government when it awarded the Company a grant of \$7.15 million under the Biofuels Capital Infrastructure Grant Scheme.

ARF is now able to further develop its corporate strategy through raising capital and listing its shares on the ASX.

Operationally, ARF has two Biodiesel plants under construction and a contract for all of the resultant Biodiesel. The plants are located in Adelaide, South Australia and Picton, Western Australia. The Adelaide plant is scheduled to commence production in November 2005 and the Picton plant in March 2006.

ARF plans to construct additional plants in line with growth in the Biodiesel market both in Australia and internationally with the intention of becoming Australia's largest Biodiesel producer.

The technology utilised in the plants is the proven Energea process, which is currently operating in Austria. ARF has an exclusivity agreement in place with Energea for the Australian region for the use of its technology.

ARF has entered into an agreement whereby it has the option to sell up to 100% of its production to a European trading house. This agreement provides a ready market from the commencement of production in late 2005, thus enabling ARF to focus on developing the emerging domestic Biodiesel market.

I encourage you to read this Prospectus in its entirety and I look forward to welcoming you as a shareholder.

Yours sincerely

A handwritten signature in black ink, appearing to read "Robert Scott". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

---

Robert Scott  
Chairman

This Section is not intended to provide full information for investors considering an application for Shares. This Prospectus should be read and considered in its entirety. Potential investors in ARF are urged to take independent financial advice about an investment of this nature.

### 1.1 Australian Renewable Fuels Limited

ARF's vision is to become the pre-eminent Australian Biodiesel producer by managing a planned roll out of Biodiesel plants within Australia. The Company will consider overseas plants as circumstances allow but in the immediate term the Directors are committed to the Company establishing a significant Australian presence.

ARF was founded by Amadeus in May 2001. Amadeus was financially responsible for the development of ARF until October 2004 when SANT subscribed for a 33.3% shareholding. Additional funding is being obtained through a conditional Federal Government grant of \$7.15 million, which has been awarded to the Company to assist in the construction of its Adelaide plant.

In January 2005, ARF issued \$16 million in Convertible Notes to secure funding for its second Biodiesel plant in Picton (near Bunbury), Western Australia.

Proceeds from the Offer will be used to replace the security for the existing finance facility provided by Amadeus, to acquire Shelly Nominees, to provide additional working capital (including capital contingency) and to pay the costs of the Offer.

The Adelaide and Picton plants have been ordered and are under construction by the Austrian manufacturer and work has commenced at the Adelaide site. It is expected that operations will commence in Adelaide in November 2005 and Picton in March 2006. Variations from this schedule may occur however the Board expects that the Forecast production levels will be achieved.

### 1.2 The Offers

By this Prospectus, the Company offers 20,000,000 Shares issued at \$1.00 each to raise \$20,000,000.

The Offer is structured in 2 parts:

- the Priority Offer of 5,000,000 Shares for Eligible Amadeus Shareholders; and
  - the Public Offer of no less than 15,000,000 Shares.
- Full details are included in Section 2.0

### 1.3 Purpose of the Offer

The net amount to be raised by this Offer is approximately \$18.27 million after paying all costs of the Offer, including underwriting fees.

The Company's main objectives in undertaking the Offer include:

- promotion and development of the Company;
- providing additional working capital requirements (including capital contingency);
- replacing the security for the existing finance facility which the Company obtained from Amadeus to develop the first Biodiesel production facility in South Australia;
- funding the cash component of the purchase consideration for

- the purchase of all the shares in Shelly Nominees; and
- listing on the ASX and paying all costs associated with the Offer.

### 1.4 Use of Funds

The funds raised from the Offer will be applied as follows:

	<b>\$A'000</b>
• Replace the security for the existing finance facility	6,500
• Purchase of Shelly Nominees	3,000
• Additional Working Capital (including capital contingency)	8,800
• Underwriting and equity raising fees	1,200
• Other costs of the Offer	500
	<b>TOTAL 20,000</b>

### 1.5 Working Capital Adequacy

The Directors are of the opinion that on completion of the Offer, the Company will have sufficient working capital to carry out its stated objectives.

### 1.6 Underwriting

Shaw has underwritten the Offer for a fee of 5% (exclusive of GST) and a management fee of 1% (exclusive of GST), both of which are calculated on the basis of the total amount raised under the Offer. Refer to Section 12.1 for a summary of the Underwriting Agreement including the terms under which the Underwriting Agreement can be terminated.

### 1.7 Capital Structure

The pro-forma capital structure of ARF on completion of the Offer is set out below for illustrative purposes:

<b>Shares</b>	<b>Number</b>	<b>%</b>
Currently on issue	51,400,000	47.6
Conversion of Convertible Notes	24,000,000	22.2
Now offered for subscription	20,000,000	18.5
Shares to be issued for the acquisition of Shelly Nominees	12,600,000	11.7
<b>Total Shares on Issue</b>	<b>108,000,000</b>	<b>100.0</b>
<b>Options</b>	<b>225,000</b>	<b>-</b>

Notes:

- The rights attaching to the Shares are summarised in Section 12.8.
- It is anticipated that a number of the Shares currently on issue and those to be issued by the conversion of Convertible Notes and the acquisition of Shelly Nominees will be classified as restricted securities by ASX (refer to Section 2.8 for further details).
- Further details of the Company's capital structure are set out in Section 5.0.
- Options have been issued in accordance with the employee share option plan referred to in Section 12.7. 75,000 exercisable at 50 cents, 75,000 at \$1.00 and 75,000 at \$1.50, each having a five year term ending on 14 February 2010. The options become exercisable at defined employment anniversary dates.

### 1.8 Current Interests in ARF

As at the date of this Prospectus, Amadeus holds 34,266,667 Shares representing 66.67% of the issued capital of the Company and SANT holds 17,133,333 Shares representing 33.33% of the issued capital of the Company. The conversion of the Convertible Notes and the issue of Shares pursuant to this Prospectus will dilute each of Amadeus and SANT's interest in the Company to 31.74% and 15.86% respectively.

### 1.9 Shelly Nominees Acquisition

Currently, Shelly Nominees, a company associated with ARF's managing director, Darryl Butcher, holds a royalty of \$0.02 (2 cents) per litre of Biodiesel produced by ARF. ARF has agreed to acquire all of the issued capital of Shelly Nominees, thereby negating the royalty payment, for a cash payment of no more than \$3 million (comprising three milestone payments of \$1 million each) and the issue of 12,600,000 Shares within 2 days of the ASX agreeing to admit ARF to the Official List on conditions acceptable to ARF. Full details of the agreement are contained in Section 12.1.

### 1.10 Dividend Policy

The Directors dividend policy is to distribute 40% of after tax profits. In the short term, the Company will be constructing its plants, however the Board anticipates that by 30 June 2006 it will be in a position to consider declaring a dividend.

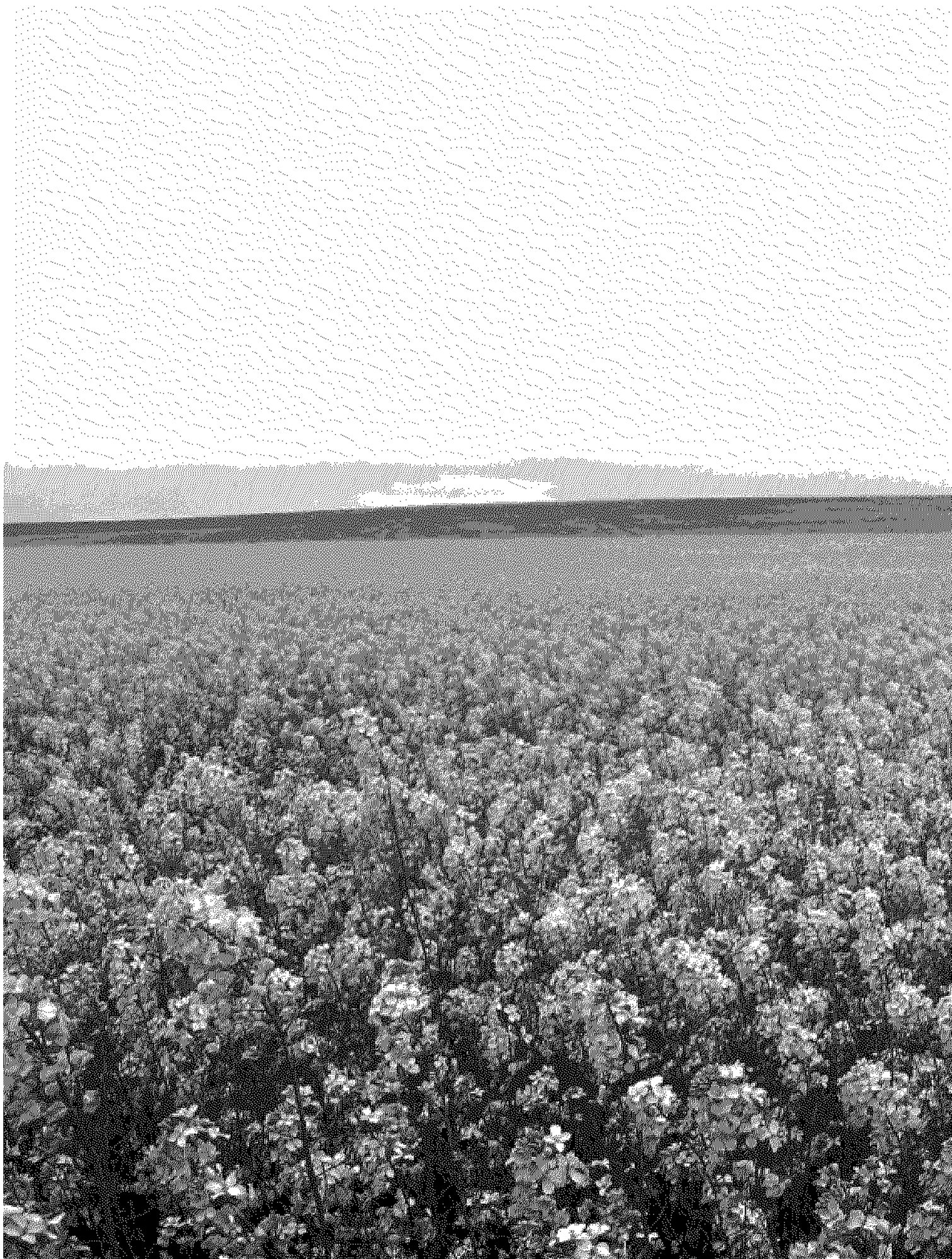
The Directors can give no assurance as to the extent, timing or actual payment of future dividends or the availability or level of franking credits. The level of dividends payable will depend upon a number of factors including future earnings, capital requirements and the overall financial condition of the Company. The Company has not declared, or paid any dividends before the issue of this Prospectus.

### 1.11 Risk Factors

Prospective investors in the Company should be aware that subscribing for Shares in the Company involves a number of risks. The key risk factors of which investors should be aware are described in Section 11.0. Investors are urged to consider these risks carefully before deciding whether to invest in the Company.

ARF's Biodiesel fuelled vehicle completed the 2003 Darwin to Adelaide 'World Solar Challenge' (Green Fleet Class)





>> Oilseed crop trials are underway in South Australia to develop future sources of Biodiesel feedstock.



## 2.1 The Offer

Pursuant to this Prospectus, the Company invites subscriptions for Shares by the following offers:

### Priority Offer

The Priority Offer is open to all Eligible Amadeus Shareholders and ARF invites them to subscribe for Shares.

Applications in the Priority Offer must be for a minimum of 2,000 Shares and thereafter in multiples of 500 Shares.

Applications to acquire Shares under the Priority Offer will only be accepted from Eligible Amadeus Shareholders who complete the relevant section on the loose leaf Priority Application Form.

In the event that the Priority Offer is:

- a) undersubscribed then the excess shares will form part of the Public Offer; or
- b) oversubscribed then the allocation will be at the discretion of the Underwriter provided that any reduction will not result in an Eligible Amadeus shareholder being allotted less than 2,000 shares.

### Public Offer

The Public Offer is open to public investors, including Eligible Amadeus Shareholders.

Applications in the Public Offer must be for a minimum of 2,000 Shares and thereafter in multiples of 500 Shares.

Applications to acquire Shares under the Public Offer will only be accepted on the Public Offer Application Form attached to this Prospectus.

The Underwriter may reject any application or allocate any public investor fewer Shares than that investor applied for.

## 2.2 Indicative Timetable

	Date
Date for determining the entitlement to Shares under the Priority Offer of the Eligible Amadeus Shareholders	21 March 2005
Priority Offer and Public Offer Opens	4 April 2005
Closing date for receipt of Applications under the Priority Offer	26 April 2005
Closing date for receipt of Applications under the Public Offer	29 April 2005
Allocation of Shares and dispatch of shareholder statements under the CHESS system	5 May 2005
Anticipated date of listing on the ASX	6 May 2005

Note: Subject to the Corporations Act and Listing Rules, the Directors reserve the right to close the Priority Offer and Public Offer early or extend the closing date.

Applicants are encouraged to submit their Applications as early as possible.

## 2.3 Allotment and Allocation of Shares

The allotment of Shares to Applicants will occur as soon as possible after the Offer is closed, following which statements of Share

holdings will be dispatched. It is the responsibility of Applicants to determine their allocation prior to trading in Shares. Applicants who sell Shares before they receive their holding statements will do so at their own risk.

Pending issue of the Shares or return of the Application monies, the Application monies will be held in trust for the Applicants.

The Company may reject any Application or allocate fewer Shares than applied for under the Offer to the extent permitted by the Priority Offer or Public Offer terms as the case may be which terms are referenced in Section 2.1.

If an Application is not accepted, or is accepted in part only, the relevant part of the Application monies will be refunded. Interest will not be paid on Application monies refunded.

## 2.4 How to Apply

Applications for Shares under the Offer can only be made on the relevant Application Form issued with or attached to this Prospectus.

The relevant Application Form must be completed in accordance with the instructions set out on the back of that Application Form.

Completed Application Forms and accompanying cheques should be lodged at any time after the issue of the Prospectus with:

### AUSTRALIAN RENEWABLE FUELS LIMITED

C/- Computershare Investor Services Pty Ltd  
PO Box D182  
Perth WA 6840

or delivered to:

### AUSTRALIAN RENEWABLE FUELS LIMITED

C/- Computershare Investor Services Pty Ltd  
Level 2 Reserve Bank Building  
45 St Georges Terrace  
Perth WA 6000

Cheques must be made payable to "Australian Renewable Fuels Limited Float Account", crossed "Not Negotiable". No brokerage or stamp duty is payable by Applicants. Only Australian dollar cheques will be accepted.

Applications must be for a minimum of 2,000 Shares at \$1.00 per Share. Applications for more than 2,000 Shares must be in multiples of 500.

A duly completed and lodged Application Form will constitute an offer by the Applicant to subscribe for the number of Shares applied for pursuant to the Application Form.

## 2.5 Oversubscriptions and Minimum Subscriptions

The Company will not accept oversubscriptions. The minimum subscription amount is \$20,000,000. No shares will be issued until the minimum subscription has been received. If ARF does not receive the minimum subscription within 3 months after the date of the Prospectus, the Company will either repay the application monies to the Applicants without interest or issue a supplementary or replacement prospectus and allow Applicants one month to withdraw their Application and be repaid their application monies.

## Details of the Offer

### 2.6 Underwriter

Shaw has agreed to act as the Underwriter to the Offer. Shaw will charge a 5% underwriting fee (exclusive of GST) and a management fee of 1% (exclusive of GST), both of which are calculated on the basis of the total amount raised under the Offer. The Company will reimburse Shaw for its out of pocket expenses such as legal fees and other disbursements. Refer to Section 12.1 for a summary of the Underwriting Agreement including the terms under which the Underwriting Agreement can be terminated.

No brokerage or stamp duty will be payable by Applicants subscribing for Shares.

### 2.7 ASX Listing

Application will be made by the Company to the ASX, within seven days following the date of this Prospectus, for the Company to be admitted to the Official List of ASX and for admission of the Shares offered pursuant to this Prospectus to quotation on ASX.

If the Company is not admitted to the Official List and its Shares are not admitted to quotation within three months after the date of this Prospectus, the Company will not allot or issue any Shares, and will repay all Application monies without interest and within the time prescribed by the Corporations Act.

The ASX takes no responsibility for the contents of this Prospectus. The fact that ASX may grant quotation of the Shares is not to be taken in any way as an indication of the merits of the Company or the Shares offered pursuant to this Prospectus.

### 2.8 Restricted Securities

Shares issued to the founding shareholders, Darryl Butcher and the Convertible Note holders, may be subject to the restricted securities provisions of the Listing Rules. Accordingly, a proportion of such Shares, to be determined by ASX, may be required to be held in escrow for a period of time, as determined by ASX. In the case of Darryl Butcher, all of the Shares being issued to him are to be held in escrow for 24 months either as a consequence of the ASX determination to restrict those Shares or failing which Darryl Butcher has agreed to voluntarily escrow the Shares for a 24 month period.

### 2.9 CHESS

ARF participates in CHESS, operated by ASTC, a wholly owned subsidiary of ASX, in accordance with the Listing Rules and SCH Business Rules.

Under this system, the Company does not issue certificates to investors. Instead, Shareholders will receive a statement of their holdings in the Company. If an investor is broker sponsored, ASTC will send them a CHESS statement.

The CHESS statement will set out the number of Shares allotted to each holder under the Prospectus and give details of their holder identification number in the case of a holding on the CHESS sub register.

In the case of an Issuer Sponsored sub register, the statement will contain the number of Shares allotted under the Prospectus and the Shareholder's security holder reference number.

A CHESS statement or Issuer Sponsored statement will routinely be sent to holders at the end of any calendar month during which the balance of their holding changes. A holder may request a statement at any other time, however a charge may be incurred for additional statements.

### 2.10 No Issue After 13 Months

No Shares will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

### 2.11 Non Resident Investors

This Prospectus does not constitute an offer of Shares in any jurisdiction where, or to any person to whom, it would not be lawful to issue the Prospectus or make the Offer. Residents of countries outside Australia should consult their professional advisers as to whether any government or other consents are required, or whether any formalities need to be observed should they wish to make an Application to take up Shares on the basis of this Prospectus.

No action has been taken to register or qualify the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia.

### 2.12 Enquiries in Relation to the Offer

This Prospectus provides information for potential investors in ARF and should be read in its entirety. If after reading this Prospectus, you have any questions about any aspect of an investment in ARF, please contact your stockbroker, accountant or independent financial adviser.

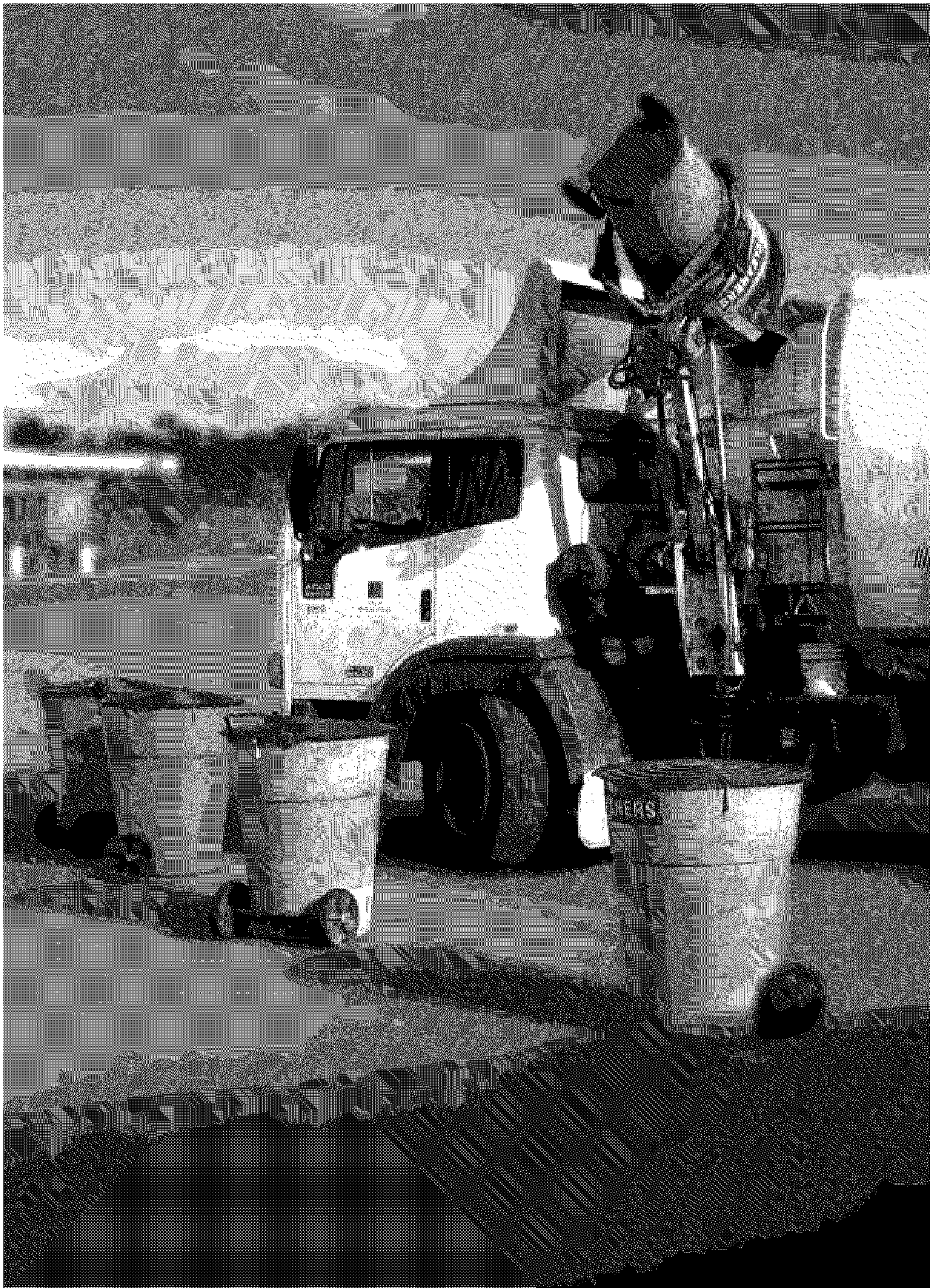
### 2.13 Privacy Act

The Company collects information about each Applicant from the Application Form for the purposes of processing the Application and, if the Application is successful, to administer the Applicant's security holding in the Company.

By submitting an Application Form, each Applicant agrees that the Company may use the information in the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the share registry, the Company's related bodies corporate, agents, contractors and third party service providers (including mailing houses), the ASX, the ASIC and other regulatory authorities.

If an Applicant becomes a security holder of the Company, the Corporations Act requires the Company to include information about the security holder (name, address and details of the securities held) in its public register. This information must remain in the register even if that person ceases to be a security holder of the Company. Information contained in the Company's registers is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its security holders) and compliance by the Company with legal and regulatory requirements.

If you do not provide the information required on the Application Form, the Company may not be able to accept or process your Application.



the world's too good to waste

did you know that this truck is running on 100% biodiesel made from recycled vegetable oils? a clean green renewable fuel resulting in improved urban air quality and actively reducing green house emissions for a sustainable future



operating on  
**biodiesel**



Fuel supplied by Australian Renewable Fuels

>> ARF provides Biodiesel for waste removal vehicle trials in the City of 'Onkaparinga' South Australia.

### 3.1 Directors

#### Robert Scott

FCA, MAICD, (Age 58)

*Non-Executive Chairman*

Robert Scott has over 35 years experience as a Chartered Accountant and adviser on corporate services and taxation in Australia. Retiring as an International Partner of Arthur Andersen in 1995, he currently consults on corporate structuring and taxation planning to Gooding Pervan Chartered Accountants. He is a Fellow of the Institute of Chartered Accountants and a Fellow of the Taxation Institute of Australia.

He was appointed as the Non-Executive Chairman of ARF in December 2002 and has served as the Non-Executive Chairman of ASX listed parent company Amadeus since 1996.

Mr Scott is a director of Homeloans Ltd and Chairman of medical device company bioMD Ltd, both of which are listed on the ASX.

#### Darryl Butcher

BSc, F Aus IMM, FAICD, (Age 47)

*Managing Director, CEO*

Darryl Butcher is an organic chemist and process consultant with over 25 years experience. He has spent the majority of his career in the mineral processing sector, in operations and project and process development in Australia and internationally.

For the past five years Mr Butcher has been committed to the development of a Biodiesel industry in Australia and is recognised as one of Australia's leading experts in the field. He was appointed the Managing Director of ARF in January 2003.

Mr Butcher has worked in several senior management roles at operational and corporate levels. Previous appointments include Principal Metallurgist and Concept Engineer for Toussaint and Richardson Pty Ltd (now Worley Mining and Chemicals), Chief Metallurgist for Metana Minerals NL, Managing Director National Resources Exploration Pty Ltd and Head of Projects for Paladin Resources Limited. He has served on the boards of public and private companies over the past 15 years. Throughout the 1990's Mr Butcher worked as a process consultant to various operators and banks in the completion of technical and commercial due diligence reports and project development internationally.

Mr Butcher brings to the Board proven performance in project development, business management and operations.

#### Graham Scott

B Ec (Hons), (Age 60)

*Non-Executive Director*

Graham Scott is senior lecturer of Economics at Flinders University of South Australia. He was appointed to the Board in September 2004. He is Chairman of the Local Government Superannuation

Board and was appointed to that position in May 1984. He is also a board member of UniSuper Ltd and served as the South Australian Independent Pricing and Access Regulator for gas from 1998 to 2003. From 24 April 1998 to 30 June 2004 Mr Scott was Chairman of Adelaide Airport Ltd and remains a director subsequent to the appointment of an independent chairman.

Mr Scott brings a proven capacity in investment and strategic planning to the Board.

#### Glyn Denison

BE, (Age 52)

*Non-Executive Director*

Glyn Denison is a civil engineer and brings to the Board over 30 years of international experience in project management and business development. With a strong management background and commercial expertise, he has been involved in securing independent and government funding for a number of development projects.

From 1987 to 2003 he worked in various positions for ERG Limited including President for ERG America's and Project Director for the Hong Kong Smart Card Project which today is the largest smart card scheme in the world with over 8 million cards issued turning over \$875 million annually. He has served as the managing director of ERG Electronics Ltd, Business Planning Manager for Bunnings Forest Products Ltd (now part of the Wesfarmers Group) and was Regional Manager for Willing & Partner – PNG for a period in the 1980's. He is currently a director of Medec Ltd a company listed on ASX.

Appointed a Director in June 2004, he brings demonstrated experience in contract negotiation, sales, marketing, promoting strategic alliances and management of diversified projects to the Board.

#### Geoffrey Towner

MAICD, (Age 55)

*Non-Executive Director*

Geoffrey Towner has been the Managing Director of Amadeus since the company was established in 1995. He has extensive international management experience in the oil and gas industry, gaining direct knowledge and expertise while living and working in Texas, USA in the 1980's where he operated a limited partnership with Australian oil company Bridge Oil Ltd.

Appointed as a Director in May 2001, his experience in international business and strong management background are valuable to the Company.

A member of the Australian Institute of Company Directors, he has held several resource based and public company directorships in Australia over the past 25 years.

### 3.2 Key Management and Company Secretary

#### **Max Ger**

*Company Secretary and Chief Financial Officer*

Max Ger is a qualified accountant with over 35 years in finance, accounting and managerial roles. Mr Ger was previously a partner in the accounting firm Deloitte Haskins & Selis before founding Ger Marx & Nick, Chartered Accountants. During his professional career he undertook local and international audits, accounting and cost accounting assignments. He has also had extensive experience in company secretarial activities.

More recently Mr Ger has undertaken senior accounting and managerial roles in the United States, New Zealand and Australia for several listed companies and a large privately owned Australian investment company. He has operational experience in the mining, manufacturing and hospitality industries.

In September 2004 he was appointed Chief Financial Officer of ARF and in December 2004 was appointed Company Secretary of ARF. On 1 February 2005 Mr Ger was appointed a director of Australian Renewable Fuels Adelaide Pty Ltd, Australian Renewable Fuels Picton Pty Ltd and ASG Analytik Pty Ltd.

#### **Fred Santich**

*Project Manager*

Fred Santich is an engineer with over 25 years experience in operational and project management roles, principally in the mining sector. He has managed many international project developments and has a successful history of project delivery within time and budget constraints.

Mr Santich's most recent project management engagements have included being involved in the budgeting, dismantling, relocating and recommissioning of mineral processing plants for overseas clients in Australia, Indonesia and the Middle East.

Mr Santich brings a detailed depth of knowledge of project management to the management team.

#### **Paul White**

*Site Manager - Adelaide*

Paul White is a Certified Practising Accountant with 16 years experience in the oil industry working with Exxon Mobil. He has experience in formal accounting and economics, change management, strategic planning and negotiating with local and state governments. Mr White has been working with ARF since October 2003.

### 3.3 Corporate Governance

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the establishment of separate Board committees. Accordingly, all matters that may be capable of delegation to committees will be dealt with by the full Board.

As such, the Directors are responsible for setting the strategic direction of the Company and establishing the policies of the Company. It is their responsibility to oversee the financial position of the Company and monitor the business and affairs of the Company, on behalf of the Shareholders, by whom the Directors are elected and to whom they are accountable. The Directors also address issues relating to internal control and the Company's approach to risk management.

Section 3.1 of the Prospectus contains details of the Directors' skills, experience and qualifications.

The primary responsibilities of the Board are set out below:

- the establishment of long term goals for the Company and strategic plans to achieve these goals;
- establishing adequate systems of internal control together with appropriate monitoring of compliance activities and establishment of and adherence to ethical and environmental standards;
- reviewing the results and findings of the external auditors, the adequacy of internal accounting and financial controls and obtaining feedback on the implementation of recommendations made;
- reviewing and approving the financial reports of the Company and receiving the audit/review reports;
- determining the remuneration of the Directors and senior executives as part of an annual review, having regard to:
  - a performance evaluation process;
  - market factors; and
  - where necessary, independent remuneration advice;
- establishing policies and codes of conduct to assist the Company and all its employees in maintaining appropriate standards of behaviour, business ethics and integrity;
- establishing policies and programmes aimed at complying with all environmental statutory standards and where standards do not exist, applying appropriate self-regulation;
- adopting practices designed to identify and monitor significant areas of business risk and to monitor the effective management of those risks in accordance with the Company's risk profile and policies. The strategic planning process, which will be updated regularly, is the principal tool in this process;
- evaluating and, where appropriate, adopting with or without modification the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations";
- recognising that adherence to corporate governance standards and benchmarks is an evolving process by reviewing and updating the Company's practices periodically or when otherwise appropriate; and
- preparing, implementing and monitoring policies to ensure that all major developments affecting the financial position and state of affairs of the Company and any subsidiaries are announced to ASX immediately.



>> ARF provided Biodiesel to sWAn Transit for bus trials in Perth.



#### 4.1 Background

ARF's vision is to become the pre-eminent Australian Biodiesel producer by managing a planned roll out of Biodiesel plants within Australia. The Company will consider overseas plants as circumstances allow but in the immediate term the Directors are committed to the Company establishing a significant Australian presence.

At the date of this Prospectus both the Adelaide and Picton plants are under construction. It is expected that production will commence in Adelaide in November 2005 and in Picton in March 2006. Variations from this schedule may occur, however, the Board expects that the Forecast production levels will be achieved.

Energiea is the technology provider and plant manufacturer. ARF has selected Leighton to manage delivery by Energiea and to design and construct the on site plant and infrastructure, although to date it has only entered a contract with Leighton for the Adelaide plant.

The Adelaide and Picton plants have the design capacity to achieve total production of 88.8 Mtpa. ARF is aiming to achieve a minimum Biodiesel production capacity of 220 Mtpa (or approximately 1.5% of the total current usage of diesel in the Australian market). To achieve this, ARF's strategy is to develop five plants around Australia. Additional plants to the two proposed in this Prospectus will require additional funding from operations, debt or equity.

The Australian Federal Government recently awarded a \$7.15 million Biofuels Capital Infrastructure Grant to ARF's Adelaide project. The receipt of grant funds is subject to the conditions set out in Section 12.1.

The Company has also been awarded two further grants with respect to the Picton plant. The first is a grant of \$0.53 million from the Australian Government under the Dairy Regional Adjustment Program, and the second is a grant of \$0.65 million from the Western Australian Government, provided by way of land. The receipt of grant funds is subject to the conditions set out in Section 12.1.

#### 4.2 Biodiesel Explained

Biodiesel is a clean burning alternative to mineral diesel fuel that is produced from renewable resources such as animal fats and vegetable oils (Fat) including (but not limited to) canola, soybean oil, palm oils, tallow and used cooking oils, all of which may be referred to generically as Fat.

Biodiesel may be used as an alternative to mineral diesel in most applications due to the fact that it has similar physical and combustion properties to mineral diesel. A number of vehicle and diesel engine manufacturers have confirmed that Biodiesel is suitable for use in certain of their engines.

Biodiesel may be blended with mineral diesel at any ratio. It can also be used as a lubricity agent in mineral diesel to restore lubricity lost during the refining process.

Biodiesel has a number of beneficial characteristics and offers significant benefits in terms of emissions, safety and environmental

outcomes when compared to mineral diesel, including:

- close to zero sulphur content
- significantly lower exhaust particulates and hydrocarbons
- significantly lower lifecycle greenhouse gas emissions
- non toxic and biodegradable
- not classed as a Dangerous Good

As Biodiesel is biodegradable and non-toxic, the environmental effects of spillage are significantly less than for a similar spill involving mineral diesel.

The CSIRO has completed a study of alternative fuels, which included Biodiesel. The report found that the use of Biodiesel may result in the following Lifecycle Emissions compared to low sulphur diesel.

Table 1. Biodiesel Total Emissions (Truck) Compared to Fossil Diesel

Emission	Low Sulphur Diesel	Biodiesel*	
	G/km	G/km	%
Greenhouse	925	71	8%
Total Hydrocarbon	1.51	0.60	40%
NOx	11.25	11.76	105%
CO	2.72	1.40	52%
PM 10	438.40	274.30	63%

\*Note: Biodiesel produced from used cooking oil

The CSIRO, ABARE and BTRE have also completed a study for the Australian Government which concluded that there were direct cost benefits to the Australian economy from the use of Biodiesel.

The report found:

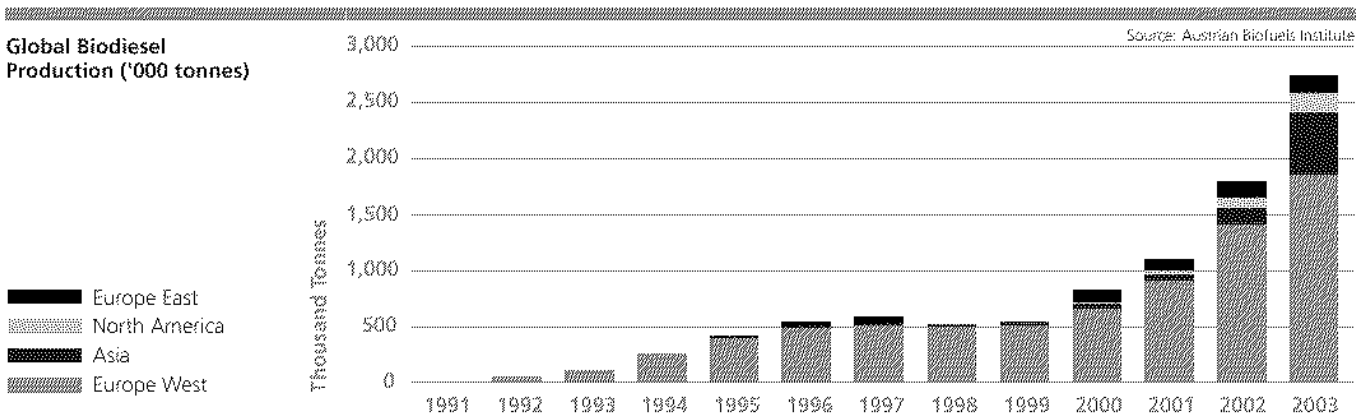
- Biodiesel is considered to be cost competitive with traditional fuels even without government assistance.
- Average health cost savings for Biodiesel are around 5¢/l.

Importantly, this is the first time that the benefits of Biodiesel usage have been assigned a monetary value to the Australian economy in a report commissioned by the Australian Government and indicates the direction in which government policy appears to be heading.

#### 4.3 Biodiesel Market

Biodiesel has been in commercial production in Europe since 1991 and in the USA for the past 7 years. It has rapidly become a desirable alternative to mineral diesel, particularly in environmentally sensitive areas, or where air quality is a prime consideration. Biodiesel production in Europe has on average almost doubled every two years since 1991, while global consumption is now estimated at approximately 3 billion litres per annum.

## Company and Project Overview



Despite the rapid growth in the Biodiesel market in Europe, the Australian market is still in its infancy. Australia consumes in excess of 14 billion litres of diesel each year, a significant portion of which is imported.

While ARF has underpinned its operations with a 5-year sales contract into Europe, the development of the Australian market is an important part of the Company's strategy. ARF does not intend to target "driveway" sales, but has focussed its marketing attention toward niche markets where a product such as Biodiesel is able to deliver more than just fuel to the end-user. The Company has been able to identify sufficient potential domestic volume to provide a reasonable expectation of success. In fact, the Company expects significant unmet demand to develop over the period of the planned production roll-out.

With the growing recognition by Governments around the world (as evidenced by the Kyoto protocol) of the problems associated with global warming, and thus the need to reduce carbon emissions, a number of Government and Legislative initiatives have been implemented both in Australia and in Europe that have assisted, and will continue to assist in the rapid expansion of the biofuels industry in these regions.

### European Initiatives

On 8 May 2003, the European Parliament and the Council of the European Union adopted EU Directive 2003/30/EC "Promotion of the use of biofuels or other renewable fuels for transport". This directive sets out national targets for biofuels of 2% and 5.75% of the fuels placed in the market by 2005 and 2010 respectively. The market share shall be calculated on the basis of the energy content of all petrol and diesel used for transport purposes.

On 27 October 2003, the European Parliament and the Council of the European Union adopted EU Directive 2003/96/EC "Restructuring the Community framework for the taxation of energy products and electricity". The Directive establishes a European Community framework to allow Member States to exempt or reduce excise duties so as to promote biofuels.

### Australian Initiatives

In May 2003, the Australian Federal Government announced a comprehensive package of measures to support the production and use of Biodiesel and provide encouragement for the conversion to cleaner

fuels. These measures formed part of broader reforms to the fuel tax arrangements (at that time), which brought all untaxed fuels used in internal combustion engines into the excise system.

On 18 September 2003, Biodiesel locally manufactured for use in internal combustion engines became subject to excise duty at the same rate as low sulphur diesel (38.143 cents per litre).

At the same time, the "Cleaner Fuels Grants Scheme" came into effect. Under this scheme, a grant is provided to manufacturers and to importers of eligible cleaner fuels. From 18 September 2003 to 30 June 2011, the rate of the grant for Biodiesel was set at 38.143 cents per litre, thus providing a zero net excise effect. On 1 July 2011, and then on 1 July in each of the subsequent 4 years, the grant rate will be reduced in five equal instalments such that the ultimate effective excise rate for Biodiesel will be half that of diesel. Export sales of Biodiesel are not subject to excise in Australia.

On 1 July 2003, the Federal Government introduced the "The Energy Grants Credits Scheme" to help cut fuel costs for businesses, particularly in regional and rural Australia, by providing a grant for fuel used in specified activities. This grant replaced the "Off-road Diesel Fuel Rebate Scheme" and the "On road Diesel and Alternative Fuels Grant Scheme". Those who use Biodiesel for eligible activities, as defined under the Energy Grants Credits Scheme, are entitled to receive a grant equivalent to the mineral diesel grant.

### 4.4 Energea Technology

The process (transesterification) by which Biodiesel is manufactured was first described by a chemist called Rochleder in 1846.

Transesterification involves reacting Fat with methanol and a catalyst, to produce Biodiesel, glycerine and potassium sulphate (fertiliser).

Energea has been involved in research in the field of Biodiesel for over seven years. With its CTER "Continuous Trans Esterification Reactor" technology, Energea is a leading technology provider in Europe. The Energea technology is a continuous conversion process, which, as an example takes approximately 1000 kg of Fat, 110kg of methanol, and small quantities of potassium hydroxide and sulphuric acid to produce approximately 1,000kg of Biodiesel, 110kg of glycerine and a small quantity of potassium sulphate (fertiliser). The significant advantage of the Energea technology is

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## Company and Project Overview

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that the reaction time is considerably shortened to produce high quality standardised Biodiesel that meets both the European (EN14214) and Australian Biodiesel Standards.

The Energea process does not produce harmful chemical emissions or material waste products, however, there are two by-products, being crude glycerine; and a small quantity of mineral fertiliser.

The main advantages of the Energea technology include:

- the ability of the technology to process multiple feedstocks e.g. used cooking oil, tallow, palm oil and most other fats;
- lower capital costs compared to competing technologies;
- lower operating costs compared to competing technologies;
- lower required operating space and energy requirements due to the continuous conversion process;
- no harmful emissions or waste streams from the process; and
- pre construction of plant in container sized frames.

Energea is currently undertaking the construction of what the Directors believe to be one of the world's largest Biodiesel plant, with capacity of 250,000 tonnes per annum in the United Kingdom. The Directors are of the view that the Energea technology has become the technology of choice for the production of Biodiesel globally.

Some aspects of one of Energea's patents are under challenge in Austria, as to the capacity of Energea to actually patent aspects of the technology, the subject of the patent. Energea has advised ARF that it expects the challenge to be unsuccessful. Regardless of the outcome of the challenge, Energea believes there will be no material impact on ARF's right to use the process and continue normal operations. Energea also holds a granted Australian patent for its technology. It should be noted that while the corresponding European patent has been challenged, this challenge in no way impinges on the rights provided by the Australian patent as patents are regional.

Energea has granted to the Company the exclusive right to purchase Biodiesel plants from Energea in the areas of Australia, New Zealand, Papua New Guinea, Solomon Islands and the Torres Strait Islands, subject to Energea having the right to sell one plant in Australia, provided that plant is ordered by 29 July 2005. The term of the exclusivity has as a result of the acquisition of the Picton plant been extended to until 30 January 2007. This term may be further extended by another 18 months on each occasion the Company orders a plant from Energea.

### 4.5 The Business Explained

#### Biodiesel Sales

ARF intends to sell Biodiesel into both the established European market and the emerging Australian market. The initial plants in Adelaide and Picton will have the design capacity to produce 44.4 Mtpa each.

ARF has an exclusive five year contract with Godiver, a European trading house, which contract gives to ARF the option to sell up to 120,000 tonnes per annum of Biodiesel (approximately 135 Mtpa). Under this exclusive arrangement, the amount shipped is to be

paid for by letter of credit, however, the price will vary based on a formula linked to the European diesel product Gasoil EN590(1) (the European diesel standard), the cost of transporting the Biodiesel to Godiver and the diesel excise in the country of destination. If ARF does not make a shipment to Godiver as a result of Godiver not accepting the proposed shipment and/or providing a letter of credit then the Company is able to sell the shipment to third parties. For full details of the Godiver agreement refer to Section 12.1.

Whilst the contract with Godiver will provide ARF with a form of security of sales from commencement of production, it is the Board's intention to develop the domestic Biodiesel market as quickly as possible once production has commenced. Over the past year, ARF has been laying the foundations for a viable domestic Biodiesel market and is in negotiations with parties such as retail fuel distributors, train operators, truck fleet operators, the marine industry and local government both in South Australia and Western Australia. The Company is also holding discussions with major oil companies regarding the sale of Biodiesel as a lubricity agent and as a blend.

#### Glycerine and Fertiliser Sales

Crude glycerine and fertiliser are by-products of the transesterification process. ARF intends to sell both products and to this end has commenced discussions with interested parties. The profitability of ARF's projects are not dependent on the proceeds received from the sale of the by-products. Glycerine is a globally traded commodity and the fertiliser produced is potassium sulphate – a product that should be readily saleable in Australia.

#### Raw Materials (Feedstock)

The principal Feedstock in Biodiesel production is Fat. Fat is found across a wide spectrum of commodities from tallow (animal fat) to vegetable oils. The different Fats within this spectrum can vary significantly in both quality and price, but almost all are suitable for the production of Biodiesel using Energea's technology.

The market for Fats both in Australia and internationally is relatively unsophisticated. Detailed analysis of these markets indicates that there are no long-term price-fixing structures or mechanisms that are commercially attractive at this time and no long-term futures or hedging mechanisms.

ARF has based its Forecast on 100% tallow due to the availability of reliable trading history for this type of Fat - which, in turn, allowed ARF to develop its price forecasts. However, once in production, it will endeavour to source lower grade Fats e.g. used cooking oil and grease trap waste, thus reducing the costs of production.

ARF has entered into exclusive (by state) 5 year Feedstock supply agreements with Gardner Smith, which encompass South Australia and Western Australia. For each plant, Gardner Smith has agreed to provide up to the plant design capacity of Feedstock per month on a cost plus basis.

Gardner Smith has a global network of offices spanning Australia, New Zealand, Singapore, China and South Africa. Their key operating areas are in the merchandising, trading, storage and

## Company and Project Overview

logistics of bulk liquids such as tallows, vegetable oils and liquid feeds.

The Board consider Gardner Smith to be the market leader for the delivery and storage of Fats in Australia.

By utilising Gardner Smith as the principal Feedstock supplier, ARF will have access to not only domestic Fat supplies but also regional supplies from New Zealand, Indonesia, Malaysia and some South American countries.

Whilst tallow remains the Feedstock of choice at present, the Company is developing new sources of supply that may be required beyond the medium-term outlook described in this Prospectus. To this end, the Company has been (and intends to continue) funding research in South Australia for the last two years, aimed at developing an oilseed crop specifically for Biodiesel production.

Since the 2003 growing season, ARF has been jointly funding research with the South Australian Research and Development Institute (SARDI) to develop an oilseed crop. ARF is seeking national commercial exploitation rights to any intellectual property that results from this research. The aim of the research is to develop an oilseed variety that is:

- specifically for use in the Biodiesel industry;
- specifically not suitable or preferable for human consumption;
- cost competitive with diesel when converted to Biodiesel; and
- provides sufficient agronomic benefit to make it a viable crop alternative for potential growers.

While the Board views this program as part of a long-term strategy, early results have been encouraging. The Board has developed a research and development expenditure policy that dedicates half a cent from the sales proceeds on each litre of Biodiesel produced to further research work. This policy results in a committed research and development budget at full production from both plants of approximately \$0.45 million per year.

**Adelaide Plant:** Construction of the plant commenced in October 2004 with production scheduled to commence in November 2005.

### 4.6 The Biodiesel Plants

#### Plant Construction

ARF has selected Leighton as project manager for the development of the Biodiesel plants in Adelaide and Picton, although to date it has only entered into a contract with Leighton for the Adelaide plant. Leighton is one of Australia's leading construction contractors and infrastructure developers and is listed on the ASX.

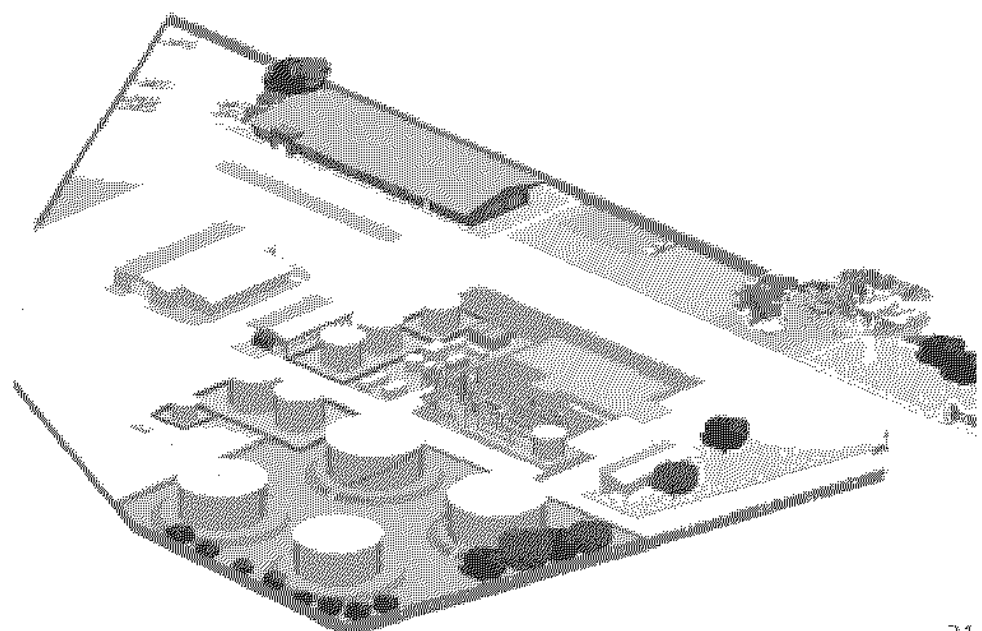
Leighton has responsibility for the delivery of the completed project in all areas except the process performance warranties provided by Energea. Leighton is managing the overseas manufacture, onsite erection, no-load testing and the procurement of acceptable documentation of the Biodiesel process units, design, construction and documentation of the balance of the project facilities and coordination of the commissioning of each project.

The construction contract utilises a guaranteed maximum price (GMP) structure, determined in three phases.

**Phase 1,** Leighton provide an initial estimate, which sets a provisional ceiling price estimate ("PCP") for the completion of the project.

**Phase 2,** the detailed design phase, as many items as possible are moved from the PCP to the GMP. Any reduction in the PCP at this point is passed directly to ARF. If the revised PCP is higher, then the difference is borne by Leighton, provided there have been no scope or assumption changes that resulted in the higher price estimate.

**Phase 3,** the construction phase, the projects will be developed on an "open book" basis whereby Leighton may share in up to 100% of any reduction in costs relative to the GMP provided the entire project is delivered within plus or minus 8 weeks of schedule. Any savings are pro-rated depending on where within this 16 week period the project is delivered. Any project cost in excess of the GMP will be Leighton's responsibility.



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## Company and Project Overview

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The Leighton construction contract for Adelaide is in construction phase 2. The contract for Picton is in the final stages of negotiation and is expected to be substantially similar to the Adelaide agreement.

Energea is the technology provider and is responsible for the supply, delivery and installation of Biodiesel plants on the sites in accordance with its performance guarantees and in conformity with the technical specifications and under Leighton's supervision.

All project developments, by their very nature, involve risk. The Company has a policy of mitigating development risk, where appropriate, through the use of insurance. To this end the Company has or will have when required purchased insurance policies which cover it during the construction period for third party, marine and construction risk. Further, the Company has secured (Adelaide) or will secure (Picton) future profits cover in the event that completion of either plant is delayed by a period greater than the excess period (30 days) and the delay was due to an insurable event. The Company intends purchasing relevant operating insurance policies when required.

### The Adelaide Plant

The Adelaide plant is located on land owned by the South Australian Land Management Corporation and ARFA is taking an assignment of the lease over the land from Castrol Australia Pty Ltd. The land is within the geographic centre of Adelaide's fuel supply infrastructure and Fat importing and exporting facilities at Largs Bay in Port Adelaide.

The site has connections to the local harbour, road and rail networks and existing service connections with water, gas, electricity and telephone utilities, although some upgrading may be necessary. The existing facilities provide access to ship loading facilities for the export of Biodiesel and import of Fat. ARFA expects it will be able to connect to Pacific Terminals (Gardner Smith) by a pipeline, which will facilitate the efficient transfer of Fat and Biodiesel to and from the site.

Construction of the plant, by Energea, commenced in October 2004 with production scheduled to commence in November 2005.

### The Picton Plant

The Picton plant will be located on land provided by the West Australian Government by way of a conditional grant. Under the land purchase and grant agreements, the State of Western Australia has provided ARF with an interest free loan to purchase the land. This loan will convert to a grant over the next 5 years, provided ARF establishes a Biodiesel plant that will directly employ 10 full-time employees and will create indirect employment for 30 people.

The site comprises 10 hectares of industrial land located approximately 5 km from the inner harbour at Bunbury.

Logistical services need to be developed for the storage of Feedstock and finished goods at the port and the piping delivery services related to these storage facilities. The Bunbury Port Authority has indicated its interest in providing the port storage facilities, (refer to Section 12.1). The operating expenditure associated with the use of the port facilities has been included in the Forecast.

Construction of the Picton plant, by Energea, commenced in February 2005 with production scheduled to commence in March 2006. The Energea contract schedules an earlier production start date, however, the Board considers a later date is prudent given the proximity to the Adelaide plant commencement.

### 4.7 Directors, Management and Employees

The profiles of each of the Directors and senior management are provided in Section 3.0 of the Prospectus. The management structure is relatively flat and the Board recognises the likely need to augment it as the Company expands. Positions that are expected to be filled first include Marketing Manager, Operations Manager and Business Development Manager. At this stage of the Company's development however, the Board considers that the Company has sufficient human resources to carry out its business plan as detailed in this Prospectus.

### 4.8 Competition

Domestically, ARF considers that there is no credible commercial competition at this time in Western Australia or South Australia. Additionally, ARF believes the development of its plants will discourage competing operators in these states. ARF does have competition in establishing production in other states and the renewable fuels industry is developing quickly.

Under the Biofuels Capital Infrastructure Grants, three other Biodiesel producers were also awarded grants and consequently represent potential competition.

The first of these is located at Rutherford in NSW and is an existing, relatively small producer.

The second is reported to be planned for the Albury-Wodonga region and will be approximately 50% larger than each of the Adelaide and Picton plants.

The third is a similar size to each of the Adelaide and Picton plants and is to be located in Deniliquin in NSW.

As a result of the rapid growth in the European Biodiesel industry over the past decade (refer Section 4.3), a number of European Biodiesel producers have emerged. However, given that the growth in demand for biofuels (including Biodiesel) is forecast to continue into the foreseeable future, the Directors do not believe that this competition poses a material risk to the future development of the Company.

#### 4.9 Summarised Financial Information

The Forecast should be considered in conjunction with the information set out in Section 5.0. The Forecast 3 month period ending 30 June 2006 is a period during which both plants are operating at near design capacity. The profit for this period should not be annualised. Please refer to the unit and sensitivity analysis in Section 5.3 for further information regarding this period.

	<sup>1</sup> Forecast Year Ending 30 June 2005	<sup>2</sup> Forecast Year Ending 30 June 2006	<sup>3</sup> Forecast 3 Months Ending 30 June 2006
	\$'000	\$'000	\$'000
<b>Revenue</b>			
Sales	-	37,431	23,515
Grants	-	250	-
<b>Total Revenue</b>	-	<b>37,681</b>	<b>23,515</b>
Operating Expenses	(1,806)	(27,932)	(16,728)
<b>EBITDA</b>	<b>(1,806)</b>	<b>9,749</b>	<b>6,787</b>
Depreciation	(8)	(765)	(388)
Amortisation	-	(621)	(238)
<b>EBIT</b>	<b>(1,814)</b>	<b>8,363</b>	<b>6,161</b>
Interest Income	558	559	111
Borrowing Expenses	(215)	(52)	-
Income Tax <sup>4</sup>	-	(1,806)	(1,953)
<b>NPAT</b>	<b>(1,471)</b>	<b>7,064</b>	<b>4,319</b>

1. Forecast year ending 30 June 2005 includes plant construction only.
2. Forecast year ending 30 June 2006 includes 4 months production from March 2006 to June 2006 at the Picton plant and 8 months production from November 2005 to June 2006 at the Adelaide plant.
3. The Forecast for the 3 months ending 30 June 2006 represents a period in which both plants are operating at near design capacity. This 3 month period has been used as the basis for the unit and sensitivity analysis contained in Section 5.3 and should not be annualised as it is impacted by factors such as the timing of sales, production levels and costs.
4. Income tax expense for the Forecast year ending 30 June 2006 includes the recognition of certain prior year tax losses. The income tax expense for the 3 months ending 30 June 2006 excludes the recognition of these losses.

This Section contains the following Financial Information for ARF and its subsidiaries:

- Forecast Statement of Financial Performance for the years ending 30 June 2005 and 30 June 2006 and the 3 months ending 30 June 2006. ("Forecast"); and
- Historical Statement of Financial Position as at 31 December 2004 ("Historical") and the Pro-forma Statement of Financial Position ("Pro-forma") as at 31 December 2004 and the notes to and forming those statements.

The Financial Information contained in this Section should be read in conjunction with, and is qualified with reference to, the information contained in the Independent Accountant's Report on Consolidated Historic and Pro-forma Financial Information in Section 9.0, the Independent Accountant's Report on Forecast Financial Information in Section 10.0, the risk factors in Sections 11.0 and other information contained in this Prospectus.

The Financial Information contained in this Section has been prepared in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia. The Financial Information has been presented in an abbreviated form and as such does not include all of the disclosures required by Australian Accounting Standards applicable to the preparation of annual financial reports in accordance with the Corporations Act. The Historical and Pro-Forma financial information has been reviewed by Ernst & Young.

The Forecast financial information is based on ARF's present business model and certain economic and operating assumptions relating to the future. The Directors have prepared the Forecast with proper care and attention. The assumptions upon which the Forecast is based are detailed in Section 5.2. Unit and sensitivity analysis in relation to the Forecast is contained in Section 5.3. The Forecast has been independently reviewed by Ernst & Young Transaction Advisory Services Limited.

The Directors note, however, that the Forecast is based on a number of general and specific assumptions, many of which are outside the control of the Company and the Directors. Events and circumstances often do not occur as expected and therefore actual results may differ from those forecast, and these differences may be material. Accordingly, the Directors cannot guarantee that the Forecast will be achieved.

The anticipated differences in accounting treatments from Australian generally accepted accounting principles ("AGAAP") to Australian equivalent International Financial Reporting Standards ("AIFRS") are discussed in Section 5.4.

### 5.1 Forecast Statement of Financial Performance

The Forecast Statement of Financial Performance as set out below has been prepared in accordance with the assumptions in Section 5.2 and the accounting policies in Section 5.5.1. The Forecast 3 month period ending 30 June 2006 is a period during which both plants are operating at near design capacity. The profit for this period should not be annualised. Please refer to the unit and sensitivity analysis in Section 5.3 for further information regarding this period.

	<sup>1</sup> Forecast Year Ending 30 June 2005 \$A'000	<sup>2</sup> Forecast Year Ending 30 June 2006 \$A'000	<sup>3</sup> Forecast 3 Months Ending 30 June 2006 \$A'000
<b>Revenue</b>			
Sales	-	37,431	23,515
Grants	-	250	-
<b>Total Revenue</b>	-	<b>37,681</b>	<b>23,515</b>
Operating Expenses	(1,806)	(27,932)	(16,728)
<b>EBITDA</b>	<b>(1,806)</b>	<b>9,749</b>	<b>6,787</b>
Depreciation	(8)	(765)	(388)
Amortisation	-	(621)	(238)
<b>EBIT</b>	<b>(1,814)</b>	<b>8,363</b>	<b>6,161</b>
Interest Income	558	559	111
Borrowing Expenses	(215)	(52)	-
Income Tax <sup>4</sup>	-	(1,806)	(1,953)
<b>NPAT</b>	<b>(1,471)</b>	<b>7,064</b>	<b>4,319</b>

1. Forecast year ending 30 June 2005 includes plant construction only.

2. Forecast year ending 30 June 2006 includes 4 months production from March 2006 to June 2006 at the Picton plant and 8 months production from November 2005 to June 2006 at the Adelaide plant.

3. The Forecast for the 3 months ending 30 June 2006 represents a period in which both plants are operating at near design capacity. This 3 month period has been used as the basis for the unit and sensitivity analysis contained in Section 5.3 and should not be annualised as it is impacted by factors such as the timing of sales, production levels and costs.

4. Income tax expense for the Forecast year ending 30 June 2006 is lower than expected as it includes the recognition of certain prior year tax losses. The income tax expense for the 3 months ending 30 June 2006 excludes the recognition of these losses and has been calculated at a rate of 30%.

### 5.2 Assumptions

The Forecast has been prepared on the basis of the material best estimate assumptions set out below and must be read in conjunction with those assumptions, the unit and sensitivity analysis in Section 5.3, the risk factors in Section 11.0, the Ernst & Young report in Section 9.0 and the Ernst & Young Transaction Advisory Services Limited report in Section 10.0.

The Forecast is intended to assist potential investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

Potential investors should be aware that the timing of events and the magnitude of their impact may differ to that assumed in preparing the Forecast, and that this may have a material effect on the financial performance of the Company.

The Company may acquire or construct additional Biodiesel plants (or undertake other investments) and raise additional capital or debt, which would result in a change to the Forecast.

<b>General Areas</b>	<b>Assumption</b>
The Group of Companies	Australian Renewable Fuels Limited is the parent entity and owns 100% of Australian Renewable Fuels Adelaide Pty Ltd and Australian Renewable Fuels Picton Pty Ltd and 50% of ASG Analytik Pty Ltd.
Reporting Framework	<p>The Financial Information has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group consensus views, and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporation Act (collectively AGAAP).</p> <p>AIFRS will apply to the Company for the reporting year ending 30 June 2006. Comparative information for this reporting period will also need to be re-stated using AIFRS. The anticipated effect on the Forecast of the introduction of AIFRS is set out in Section 5.4. The anticipated effect is subject to further development, clarification and interpretation of AIFRS as it applies to the Company.</p>
Continuity of Operations	There will be no significant disruption to the Company's operations during the Forecast period.
Foreign Exchange Risk	There will be no material change in foreign exchange rates between Australian, European and United States currencies during the Forecast period.
Insurance	Appropriate insurances are in place.
Legislation	There will be no change in international, federal, state, or local government laws, regulations or policies, or in taxation legislation, that will have a material impact on the Financial Information.
Economic and Political Environment	There will be no significant changes in the prevailing economic and political conditions or the rate of economic growth in South Australia, Western Australia, Australia or Western Europe.
Litigation and Contingent Liabilities	The Company will not incur any material litigation or contingent liabilities.
<b>Specific Areas</b>	<b>Assumption</b>
Manufacturing Plants	Two production plants will be constructed, one located in Adelaide, South Australia and the second located in Picton, Western Australia.
Construction Commences	Construction of the Adelaide plant commenced in October 2004 and construction of the Picton plant commenced in February 2005.
Operations Commence	<p>The Adelaide plant is Forecast to commence operations in November 2005 and the Picton plant in March 2006.</p> <p>Variations from this schedule may occur, however, the Board expects that the Forecast production levels will be achieved.</p>
Plant Capacity and Utilisation	<p>Each plant has the ability to produce 44.4 million litres of Biodiesel per annum from 40,000 tonnes of Feedstock at design capacity and utilisation.</p> <p>Design utilisation is 7500 hours per year, or 85.6% at design capacity of 5.33 tonnes per hour.</p>

Specific Areas	Assumption
Biodiesel Sales Revenue Export	<p>Export sales are recorded when product specification clearance is obtained and the shipment has departed port.</p> <p>The export sales price is determined by the terms of the Godiver contract. The price used in the Forecast is A\$0.96 per litre. For further details of the agreement refer to Section 12.1.</p> <p>Export shipments are expected to occur in lots of 5000 kilolitres from each plant. The forecast for the 3 months ending 30 June 2006 includes two export shipments from each plant. The number of export shipments in any quarter may vary due to Biodiesel inventory levels. This is an example of why the results for the 3 months to 30 June 2006 should not be annualised.</p>
Biodiesel Sales Revenue Domestic	<p>Domestic sales are recorded at the time of executing the sale. The domestic price used in the Forecast is A\$0.84 per litre (excluding GST).</p>
Sales Volume Mix	80% export sales and 20% domestic sales.
Feedstock/Fat Price Expenses	The price of Fat is based on the 10 year average Bleachable Fancy Tallow price plus on-costs and fees. The price of Fat (tallow), inclusive of on costs, is A\$566 per tonne for Adelaide and A\$556 per tonne for Picton.
Volume of Feedstock	At design capacity and utilisation each plant is Forecast to consume 40,000 tpa of Feedstock.
Methanol Expenses	The price of methanol is A\$443 per tonne for both the Adelaide and Picton plants.
Plant Purchase Price	The cost of constructing the production plants is in accordance with the Energea Biodiesel Production Technology and Facility Supply Agreement and the Leighton Design and Construct Agreement detailed in Section 12.1. The Forecast cost of construction for both plants is A\$31 million.
Government Capital Grants	Subject to the Company satisfying all terms and conditions of the grants as set out in the Biofuels Capital Infrastructure Grant, Dairy Assistance Programme Funding, the South West Industry Assistance Scheme and the South West Development Commission sale agreement the Company and its subsidiaries will be entitled to capital grants totalling \$7.68 million and 10 Ha of land. These grants are detailed in Section 12.1.
Cleaner Fuels Grants Scheme	<p>All Biodiesel sold within Australia will be eligible for the Cleaner Fuels Grants Scheme. The scheme provides for a grant equivalent to the excise payable on mineral diesel. The result is that during the forecast period the excise charged will be immediately granted back to ARF.</p> <p>Details of the Cleaner Fuels Grant Scheme are discussed in Section 4.3.</p>
Interest Income	Interest on cash at bank is assumed to be 4.5%.

Income Tax

At 30 June 2006 it is Forecast that, as the Company will be profitable, it is virtually certain that income tax losses will be recovered.

Therefore tax losses incurred in the years ending on or before 30 June 2005 are recorded as a future income tax benefit at 30 June 2006.

The result is that the implied tax rate for 30 June 2006 is less than 30%. The effect of recording these tax losses has been removed from the Forecast for the 3 months ending 30 June 2006 to allow an analysis of a period during which both plants are operating.

**5.3 Unit and Sensitivity Analysis**

The Forecast for the year ending 30 June 2006 reflects 8 months production at the Adelaide plant and 4 months production at the Picton plant, as such the application of sensitivity analysis on those forecast results is only of limited use in understanding the impact on the Biodiesel operations of changes in key assumptions.

Instead a unit analysis of "results per million litres sold" has been prepared (Section 5.3.1) utilising the Forecast 3 months ending 30 June 2006, being a period where both plants operating at near design capacity.

Variations have then been applied to illustrate the sensitivity of the unit analysis base case to changes in the Biodiesel price (Section 5.3.2) and the Fat price (Section 5.3.3), representing the two key assumptions upon which the operations of the Company depend.

This unit and sensitivity analysis is not a forecast. The results of the analysis are intended to provide prospective investors with an illustration only of the per litre economics of ARF's early production phase and should be read in conjunction with the risk factors set out in Section 5.3.4. The unit and sensitivity analysis should only be considered in relation to the forecast plant capacity and utilisation as significantly higher or lower levels of production will result in materially different results.

**5.3.1 Unit Analysis for the Base Case Assumptions**

The unit analysis is based on the Forecast for the 3 months to 30 June 2006, which reflects the Forecast assumptions set out in Section 5.2. Biodiesel sales forecast for that period, where both the Adelaide and Picton plants are operating at near design capacity, total approximately of 24.11 million litres. The "result per million litres sold" detailed in the following table reflects this.

Unit Analysis – Base Case	Result Per Million Litres Sold
EBITDA	\$0.282 million
EBIT	\$0.256 million
NPAT	\$0.179 million
NPAT (excluding amortisation)	\$0.189 million

**5.3.2 Sensitivity Analysis for a +/-10% Change in the Biodiesel Price**

The Biodiesel price used in the forecast has been derived from the historical diesel price and the Gasoil EN590(1) price ("price derivatives"). These price derivatives are made up of the crude oil price, refining and distribution charges, fuel taxes and a profit margin. The fixed nature of many of these factors means that a 10% change in the crude oil price will not necessarily result in a 10% change in the price derivative and hence the underlying Biodiesel price. Accordingly, while the Biodiesel price will be affected by the crude oil price it is not expected that this change will be directly proportional, dollar for dollar.

The export sales price (FOB) used in the Forecast is A\$0.96 and is based on the average price over the last six years that the Godiver contract would have delivered. The domestic sales price used in the forecast is A\$0.84 (excluding GST) and is based on the calculated average wholesale, or "terminal gate" price for the last four years. The sales volume mix used in the Forecast is 80% export and 20% domestic.

The table below summarises the impact from the base case included in Section 5.3.1 of a 10% movement in the Biodiesel price assumed in the Forecast.

	<b>Change from base case per million litres sold</b>	<b>Change from base case</b>
EBITDA	\$0.094 million	33.4%
EBIT	\$0.094 million	36.8%
NPAT	\$0.066 million	36.9%
NPAT (excluding amortisation)	\$0.066 million	34.9%

The sensitivity analysis is performed at near full production capacity and should not be applied to production levels in excess of or substantially less than that capacity.

### 5.3.3 Sensitivity Analysis for a +/-10% Change in the Fat price (including on-costs).

The table below summarises the impact from the base case included in Section 5.3.1 of a 10% movement in the Fat prices assumed in the Forecast. The forecast price of Fat is based on the 10 year average Bleachable Fancy Tallow price inclusive of on-costs and fees. The price of Fat, inclusive of on-costs, is A\$566 per tonne for Adelaide and A\$556 per tonne for Picton.

	<b>Change from base case per million litres sold</b>	<b>Change from base case</b>
EBITDA	\$0.051 million	18.1%
EBIT	\$0.051 million	19.9%
NPAT	\$0.036 million	20.1%
NPAT (excluding amortisation)	\$0.036 million	19.0%

The sensitivity analysis is performed at near full production capacity and should not be applied to production levels in excess of or substantially less than that capacity.

### 5.3.4 Risk Factors in Applying the Unit and Sensitivity Analysis

The unit and sensitivity analysis does not constitute a forecast. The results are intended to provide prospective investors with an illustration only of the per litre economics of ARF's early production phase and the financial sensitivity to the Biodiesel price and the Fat price. The 3 month period ending 30 June 2006 from which these results are derived is a discrete period that is an indication of future periods but should not be applied to such periods without considering the risks set out in Section 11.0 and the following additional risk factors:

- The analysis applies for upward or downward movement in the Biodiesel price and the Fat price. However severe changes in these factors will materially affect the relationship between revenues and expenses, therefore the analysis should be considered in the context of the plants capacity and utilisation.
- Export sales carry a higher Forecast profit margin therefore the timing of such sales is important in achieving the expected unit analysis in any particular discrete time period.
- The analysis assumes that no income from government grants will be recorded and that interest income is consistent with that recorded in the analysis period.
- The analysis assumes that unless varied to illustrate the effect of sensitivities that the Forecast assumptions set out in Section 5.2 will apply. Potential investors should be aware that the assumptions used in the Forecast are subject to variation and are not intended to be a representation that the assumptions will occur.

### 5.4 Australian Equivalent International Financial Reporting Standards ("AIFRS")

The implications of applying AIFRS have not been incorporated into the Forecast, however, the following is a description of the anticipated impact of AIFRS. The anticipated effect is subject to further development, clarification and interpretation of the new standards as they apply to the Company.

### 5.4.1 Anticipated Impact of AIFRS

#### Financial Instruments

The Company has entered into foreign currency forward exchange contracts in order to eliminate the exchange rate risk associated with the construction cost of the Adelaide and Picton plants. Currently, any unrealised gains or losses on these contracts and the premium or discount are deferred and recognised in the measurement of the underlying transaction.

Under AASB 139, Financial Instrument: Recognition and Measurement, all financial instruments must be recognised in the statement of financial position and all derivatives must be carried at fair value. The financial effect of measuring derivatives at fair value at each reporting date is reported through the statement of financial performance unless the derivatives constitute effective cash flow hedges, in which case changes in fair value are recorded directly in equity. To the extent that there is hedge ineffectiveness, then changes in fair value will be accounted for in the statement of financial performance. It is therefore possible that there will be increased earnings volatility from accounting for financial instruments under AIFRS. AASB 139 will apply prospectively from 1 July 2005.

Under AIFRS it is anticipated that the foreign exchange contracts would qualify for treatment as an effective cash flow hedge. Provided that the contracts remain effective cash flow hedges then it is unlikely that there will be a material impact on the Forecast.

#### Employee Options

The Company has entered into an employee share option plan on the terms and conditions set out in Section 12.7.

Under the AASB 2, Share-based Payments, an expense is to be recognised with respect to share-based transactions over the period between the grant date and the vesting date of the equity instrument.

It is likely that options granted under the plan will have specific conditions which do not apply to normal market traded options, therefore the equity instruments will need to be measured at their fair value at the grant date using an option valuation model such as the binomial or Black-Scholes model.

The expense will be calculated by measuring the fair value of the options at grant date and applying this to the estimated number of options to vest at vesting date. The number of options expected to vest at vesting date may be affected by the achievement of service and vesting conditions.

225,000 executive options have been issued during the Forecast period. Under AIFRS the fair value of these options at the date of grant will need to be expensed. The calculated fair value is not material to the Forecast result.

#### Government Grants

The Company has been awarded three government capital grants. Under AASB 120 government grants are recognised as income on a systematic basis over the periods necessary to match them with the related costs which they are intended to compensate but there must be a reasonable assurance that:

- the entity will comply with the conditions attaching to them; and
- the grants will be received.

Where the government grant is awarded for the acquisition or construction of a long-term asset, AASB 120 requires the amount of the grant carried forward to be presented as deferred income.

Under AGAAP government grants are recognised as income when:

- the Company gains control of the contribution or the right to receive the contribution;
- it is probable that the economic benefits comprising the contribution will flow to the entity; and
- the amount of the contribution can be measured reliably.

The Company has determined that no grant income will be recorded until all conditions precedent to the grant agreements are satisfied. The Australian Accounting Standards do not allow grant income to be matched to future expenditure or to be offset against the cost of construction, the income is recorded in its entirety when the tests are met.

The recording of grant income under AGAAP, as represented in the Forecast is not expected to differ as a result of the introduction of AIFRS due to the specific characteristics of the grants which the Company has been awarded.

Carrying Value of  
Development Expenditure  
and Intangible Assets

At 31 December 2004 the Company held as a non-current asset development expenditure of \$3.28 million. The recoverability of this asset is considered annually. Development expenditure included in the Forecast increases by \$15.6 million due to the acquisition of intellectual property from Shelly Nominees as set out in Section 12.1.

**Under AIFRS, it is anticipated that total development expenditure of \$18.88 million meets the recognition criteria set out in AASB138 and therefore there will be no adjustment to the Forecast on transition.**

Income Tax

The conversion to AIFRS will require the adoption of the balance sheet approach when accounting for deferred tax, which may potentially result in recognition of more deferred tax assets and liabilities.

**The introduction of AIFRS is not expected to effect the tax expense during the Forecast period.**

**5.5 Historical and Pro-forma Statement of Financial Position**

The Historical Statement of Financial Position and the Pro-forma Statement of Financial Position as set out below has been prepared in accordance with the accounting policies set out in Section 5.5.1.

	* Notes	Reviewed Historical at 31 Dec 2004 \$A'000	Reviewed Pro-forma at 31 Dec 2004 \$A'000
<b>Current Assets</b>			
Cash	1	4,714	37,095
Receivables	2	76	76
Other	3	95	95
<b>Total Current Assets</b>		<b>4,885</b>	<b>37,266</b>
<b>Non Current Assets</b>			
Plant and Equipment	4	2,857	2,857
Development Expenditure	5	3,285	18,883
Land	6	752	752
Other	7	256	-
<b>Total Non Current Assets</b>		<b>7,150</b>	<b>22,492</b>
<b>Total Assets</b>		<b>12,035</b>	<b>59,758</b>
<b>Current Liabilities</b>			
Payables	8	126	2,126
Other	9	95	95
<b>Total Current Liabilities</b>		<b>221</b>	<b>2,221</b>
<b>Non Current Liabilities</b>			
Payables	10	87	87
Non-interest bearing loans	10	650	650
<b>Total Non Current Liabilities</b>		<b>737</b>	<b>737</b>
<b>Total Liabilities</b>		<b>958</b>	<b>2,958</b>
<b>Net Assets</b>		<b>11,077</b>	<b>56,800</b>
<b>Equity</b>			
Contributed Equity	11	11,432	57,155
Outside Equity Interest	12	-	-
Accumulated Losses	13	(355)	(355)
<b>Total Equity</b>		<b>11,077</b>	<b>56,800</b>

\* The notes to this statement are set out in Section 5.5.2

The Pro-forma Statement of Financial Position as at 31 December 2004 has been prepared based on the Historical Statement of Financial Position at that date and on the assumption that the following proposed transactions had occurred as at 31 December 2004:

- The issue of 16,000 Convertible Notes at an issue price of \$1,000 per note to raise \$16,000,000 before expenses. The notes will convert to 24 million Shares when the Company receives conditional approval to list on ASX.
- The issue of 20,000,000 Shares at an issue price of \$1.00 per Share pursuant to this Prospectus to raise \$20,000,000 before expenses.
- The payment and recognition directly in equity of \$2.88 million in fundraising costs being, \$0.95 million for the Convertible Note Issue and \$1.93 million for the Share issue pursuant to this Prospectus. \$0.256 million of these costs have been paid at 31 December 2004.
- The issue of 12,600,000 shares at a deemed issue price of \$1.00 per Share to Darryl Butcher as consideration for the acquisition of Shelly Nominees.
- The payment of \$1 million and recognition of a \$2 million liability to Darryl Butcher being the cash component payable for the acquisition of Shelly Nominees.

### 5.5.1 Accounting Policies

The Financial Information has been prepared in accordance with AGAAP. The Financial Information is presented in an abbreviated form insofar as it does not comply with all of the disclosures requirements set out in the Australian Accounting Standards and the Corporations Act.

The principal accounting policies relating to the Financial Information are described below.

#### Accounting Policy

Basis of Accounting	The Financial Information has been prepared in accordance with the measurement and recognition (but not all of the disclosure) requirements of applicable Accounting Standards and other mandatory professional reporting requirements in Australia using the accrual basis of accounting including the historical cost convention and the going concern assumption.
Principles of Consolidation	The Financial Information incorporates the assets and liabilities of all entities controlled by ARF and the results of all controlled entities for the year then ended. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.
Cash and Cash Equivalents	Cash includes cash on hand and in banks and money market investments readily convertible to cash within 2 working days net of outstanding bank overdrafts.
Foreign Currency	Where a purchase or sale is specifically hedged, exchange gains or losses on the hedging transaction arising up to the date of purchase or sale and costs, premiums and discounts relative to the hedging transaction are deferred and included in the measurement of the purchase or sale. Exchange gains and losses arising on the hedge transaction after that date are taken to the net profit.
Contributed Equity	Contributed equity 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 of the share proceeds received.
Income Tax	Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit/loss after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income benefit accounts at the rates which are expected to apply when those timing differences reverse.
Recoverable amounts of Non-Current Assets	The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows arising from its continued use and subsequent disposal.  Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where the net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the

### Accounting Policy

Recoverable amounts of Non-Current Assets Cont.	relevant group of assets. Revaluation decrements are recognised as an expense in the statement of financial performance.  The expected net cash flows included in determining the recoverable amounts of non-current assets have not been discounted as permitted by AASB 1010.
Development Expenditure	Development costs are carried forward in relation to the feasibility costs incurred on the Biodiesel project. The net carrying value of the expenditure is reviewed regularly and, to the extent to which this value exceeds its recoverable amount that excess is fully provided against in the financial year in which it is determined.
Income and Expenses	Income and expenses are brought to account on an accruals basis.
Assets Acquired	All plant and equipment, land and other assets are brought to account at the cost of acquisition.
Government Grants	Government Grants are recorded as income when: <ul style="list-style-type: none"> <li>• the Company gains control of the contribution or the right to receive the contribution;</li> <li>• it is probable that the economic benefits comprising the contribution will flow to the entity; and</li> <li>• the amount of the contribution can be measured reliably given that the Company believes it will meet the terms and conditions of the grants.</li> </ul>
Letter of Credit Fees	Letter of credit fees are expensed as incurred.
Inventory	Stockpile and finished goods inventories are carried at the lower of cost or net realisable value.
Depreciation	Plant and equipment is depreciated at 5% per annum straight line and land is not depreciated.
Amortisation	Deferred development costs are amortised over 20 years.

### 5.5.2 Notes to the Historical and Pro-forma Statement of Financial Position

1. Cash	AS'000
Reconciliation of movement in cash:	
Balance as at 31 December 2004	4,714
Issue of Convertible Notes	16,000
Issue of Shares pursuant to this Offer	20,000
Payment of costs of Convertible Note issue	(892)
Payment of costs of this Offer	(1,727)
Payment to Darryl Butcher to acquire Shelly Nominees	(1,000)
<b>Pro-forma balance as at 31 December 2004</b>	<b>37,095</b>

	Reviewed Historical 31/12/04 A\$'000	Reviewed Pro-forma 31/12/04 A\$'000
<b>2. Receivables</b>	76	76
<b>3. Other - Unrealised Asset on Foreign Exchange Hedge Liability</b>	95	95
<b>4. Property, Plant and Equipment</b>		
Property, Plant and Equipment - at cost	2,858	2,858
Less: accumulated depreciation	(1)	(1)
	<b>2,857</b>	<b>2,857</b>
<b>5. Development Expenditure</b>		
Development expenditure – at cost		
Balance at 30 June 2004	2,846	2,846
Capitalised Expenditure	437	437
Consideration for the purchase of Shelly Nominees	-	15,600
	<b>3,283</b>	<b>18,883</b>
<p>The ultimate recoupment of costs carried forward during development is dependent on the commercial exploitation or sale of the project. Amortisation of the costs carried forward during development is not being charged pending the commencement of production.</p> <p>Refer to Section 5.4.1 for the anticipated impact of AIFRS.</p>		
<b>6. Land</b>		
Picton Land - Western Australia	752	752
<b>7. Other Non-Current Assets</b>		
Prepaid fundraising costs	256	-
<b>8. Payables</b>		
Trade Creditors	126	126
Other Creditors	-	2,000
	<b>126</b>	<b>2,126</b>
<p>Pursuant to an agreement with the Managing Director, Mr Darryl Butcher, the Company will pay Mr Butcher a total of \$2m on the sale of the first 1,000 tonnes of Biodiesel from each of the Adelaide and Picton plants. Refer to Section 12.1 for further details.</p>		
<b>9. Other - Unrealised Gain on Foreign Exchange Hedge Liability</b>	95	95

	Reviewed Historical 31/12/04 A\$'000	Reviewed Pro-forma 31/12/04 A\$'000
<b>10. Non-Current Liabilities</b>		
Payables - Amadeus	87	87
Non-Interest Bearing Loan - Western Australian State Government loan	650	650
<p>The payables to Amadeus (ARF's major shareholder) are in relation to costs incurred by Amadeus on behalf of ARF. The loan is for the purchase of land at Picton. The loan converts to a grant at defined milestones. Refer to Section 12.1 for further details.</p>		
	No. of Ordinary Shares	A\$
<b>11. Contributed Equity</b>		
(a) Issued and paid up capital		
Ordinary Shares fully paid	<b>53,400,000</b>	<b>108,000,000</b>
(b) Movements in contributed equity		
Balance at 30 June 2004	2	2
Share split – 21 July 2004	65	-
Share placement – 10 September 2004	33	8,000,000
Conversion of loan from Amadeus to equity – 22 September 2004	-	3,431,969
Share Issue	52,519,900	-
Share re-construction	(1,120,000)	-
	<b>51,400,000</b>	<b>11,431,971</b>
Issue of 24,000,000 Shares at 66.67 cents on conversion of the Convertible Notes	24,000,000	16,000,000
Issue of 20,000,000 Shares at \$1.00 each per share pursuant to this Offer	20,000,000	20,000,000
Issue of 12,600,000 Shares at an implied value of \$1.00 each per Share to Darryl Butcher	12,600,000	12,600,000
Cost of Convertible Note issue	-	(946,325)
Estimated cost of preparing the Prospectus and capital raising	-	(1,931,053)
Balance of pro-forma at 31 December 2004	<b>108,000,000</b>	<b>57,154,593</b>
(c) Terms and conditions of contributed equity		
Shares		
Shares have the right to receive dividends as declared and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on Shares held.		
The Shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.		

	Reviewed Historical 31/12/04 A\$	Reviewed Pro-forma 31/12/04 A\$
<b>12. Outside Equity Interest</b>		
Interest in:		
Share capital	2	2
Retained Profits	355	355
	<b>357</b>	<b>357</b>
<b>13. Accumulated Losses</b>	<b>A\$'00</b>	<b>A\$'00</b>
Total accumulated losses	<b>(355)</b>	<b>(355)</b>
Movement in accumulated losses:		
Balance at beginning of period	(126)	(126)
Net loss attributable to Shareholders	(229)	(229)
Balance at end of period	<b>(355)</b>	<b>(355)</b>

**14. Contingent Liabilities**

The Company has no contingent liabilities.

**15. Financing Facility**

Pursuant to a facility agreement dated 16 January 2005 between Amadeus as lender, ARFA as borrower and the Company as guarantor, ARFA obtained a facility of \$7,500,000 from Amadeus for the purposes of funding or providing credit support for the construction of the Adelaide plant. This facility will be replaced by funds raised pursuant to this Prospectus. The Company has provided letters of credit to Energiea for \$4.86m and EUR184k and to Leighton Contractors for \$1.6m for the construction of the Adelaide plant.

**16. Financial Instruments – Foreign Exchange Risk Exposure**

The consolidated entity enters into foreign exchange contracts to hedge specific capital obligations denominated in foreign currencies (Euro). Any cost or benefit resulting from a specific hedge is deferred and forms part of the initial asset. At 31 December 2004 an unrealised gain of \$94,708 has been recorded (see note 3 and 9) as a result of marking foreign exchange contracts to the spot rate.

The following table sets out the gross value to be received/paid under foreign currency contracts, the weighted average contracted exchange rate and the range of settlement dates of outstanding contracts as at 31 December 2004.

Buy Euros	Euros	Average Exchange Rate (AUD)
Within 1 year	2,392,000	0.577

**17. Impact of Adopting AIFRS in relation to the Statement of Financial Position**

The Company will begin reporting under AIFRS from the year ending 30 June 2006. In transitioning to AIFRS the Company will restate its statement of financial position for the year ending 30 June 2005 as if they were prepared under AIFRS and these balances will become the opening position from which the statements to 30 June 2006 will be prepared.

Set out below are key areas where accounting policies will change upon adoption of AIFRS and may have an impact on the Historical and Pro-forma Statement of Financial Position for the Company.

**Hedge Accounting**

Under AASB 139 Financial Instruments: Recognition and Measurement in order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identified the type of hedge - fair value or cash flow;
- Identify the hedged item or transaction;
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;

- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

The Company's current accounting policy does not meet these criteria and will need to be amended when it transitions to AIFRS. Under the new policy hedge accounting will no longer be able to be applied to such forward foreign exchange contracts unless the criteria identified above are met and all gains and losses on the contracts will be recognised in the income statement. Reliable estimation of the future financial effect of this change in accounting policy has not yet been measured.

### **Impairment of Assets**

Under the AASB 136 Impairment of Assets the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the Company's current accounting policy which determines the recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

### **Intangible Assets**

Under the AASB 138 Intangible Assets, costs incurred in the research phase of the development of an internally generated intangible must be expensed. This will result in a change in the Group's current accounting policy which allows for the capitalisation of costs incurred in the research phase of an internally generated intangible asset where future benefits are expected beyond reasonable doubt. Under the new policy, all research costs will be written off as incurred. On transition approximately \$3 million of currently recognised internally generated intangible assets will be required to be adjusted against opening retained earnings as they will not meet the recognition requirements under AASB 138.

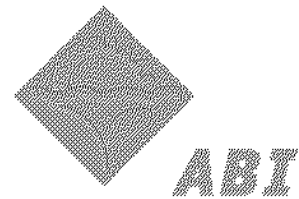
### **Income Taxes**

Under the AASB 12 Income Taxes, the company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. It is not expected that there will be any material impact as a result of adoption of this standard.

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Dear Directors

## INDEPENDENT REVIEW OF THE EUROPEAN BIODIESEL MARKET

### 1. Introduction

Australian Renewable Fuels Limited (ARF) requested the Austrian Biofuels Institute (ABI) to provide an overview of the European Biodiesel market for the purposes of inclusion in the prospectus to be dated on or about 14 March 2005 ("the Prospectus") relating to the offer by ARF of 20,000,000 ordinary shares at \$1.00 each to raise a total of \$20,000,000 and the public listing of ARF.

### 2. Feedstock

#### Feedstock sources

By end of 2004 rapeseed-oil continued to represent the by far leading feedstock in Europe used for the constantly increasing Biodiesel production, and this position has become even stronger with the further expansion of the European Union into the EU-25. In 2004 Germany has clearly taken the leading position within the rapeseed growing nations for Biodiesel production, having overtaken France and followed by the Czech Republic, Denmark, Austria, Slovakia and Sweden, while the UK has started only recently with the construction of a large Biodiesel production plant (250.000 t) in the Northeast of England close to one of the most suitable areas for rapeseed growing.

Overall there can be observed however a clear trend to a larger variety and to intelligent blends of different feedstock sources, not only from European origin but also imported from non-EU-25 countries. The different feedstock sources ranked by importance:

- a) Rapeseed-oil:** because of its favourable properties: (relatively high oxidation stability, - Iodine Value (IV) lower than 120, and acceptable winter operability) and the high yields of up to 2 t oil/ha rapeseed-oil is dominating the supply market. The presently grown "00-rapeseed" has a weak point of a rather high level (11 %) of linolenic fatty acid (18:3), which has 3 unsaturated double-bonds and is therefore causing higher instability than desired. New rapeseed varieties are however reaching market introduction, which have higher levels of either high-oleic fatty acid (18:1) or low linolenic fatty acid (18:3) and have therefore a higher oxidation stability than traditional breeds.
- b) Sunflower-oil:** yields per ha are substantially lower than rapeseed and the IV is higher than 120 (the European standard EN 14214 requires less than 120), so this oil would require blending with low IV-oils. Also here new varieties with up to 90 % high oleic fatty acid are ready to enter the markets soon, representing an interesting and suitable choice for use as Biodiesel feedstock specifically in the Southeastern countries of Europe.

**c) Recycling oils and animal fats:** With the right process technology in place rather cheap recycled oils mainly from restaurants and from households as well as animal fats can be processed into high quality Biodiesel. Those feedstock materials are rather cheap and promise high profitability. With the European Biodiesel fuel standard EN 14241 there are however clear parameters set, which cannot be achieved with some recycling oils e.g. those with high polymer content. Careful and clean recycling practices are needed in order to achieve the required feedstock quality. Animal fats as derived from knackery operations, which process the whole animal including hairy skins, contain higher levels of sulphur than required, which have to be reduced by specific distillation processes.

**d) Soy-oil:** This is the feedstock of choice in the USA, in Argentina and in other soybean growing countries, but as soy-oil has an IV of higher than 120 it does not meet the EN 14214 standard. As the American Biodiesel standard ASTM D-6751-02 does not contain this parameter it can be used there, provided the Diesel engine and car industry is accepting this standard. In order to achieve required high-quality standard like the EN 14214 soy-oil may be used as multi-feedstock blending component to some extent.

**e) Palm-oil:** Malaysian palm-oil-methyl-ester was used already in 1987 as Biodiesel in Mercedes buses in Kuala Lumpur. This type of Biodiesel has a rather high stability on the one hand but shows a limitation in the CFPF (Cold Filter Plugging Point) of + 11°C. This type of Biodiesel is unsuitable in colder climatic conditions in Europe, but it may also be used as a minor component in multi-feedstock blends in summertime.

**f) Non-food oil crops:** The full scope of potentially suitable and useful oilseeds is not yet explored. A few oilseed plants can be mentioned, as they had been tested already:

- Physic nut (*Jatropha curcas*) was successfully used in Nicaragua in a Biodiesel pilot plant in 1994. *Jatropha* oil is going to be used as feedstock in the new Biodiesel programme in India, which has the objective to initiate large cultivations of *Jatropha* within the Indian government plantation programmes for more than 1m hectares of wasteland in the "rain-shadow areas" of Andhra Pradesh and Jaipur.
- Similar trial activities for planting and testing *Jatropha* have been observed in China, Egypt, Ghana, Mali, Mozambique, South Africa and Tanzania without having reached a commercial scale yet.
- Other oils from oil bearing trees like Sal (*Shorea robusta*), Mahua (*Madhuca indica*) and Neem (*Azadirachta indica*) are under investigation as well in India.

Note: The use of t or ton(s) refers to a metric tonne (1,000 kilograms)

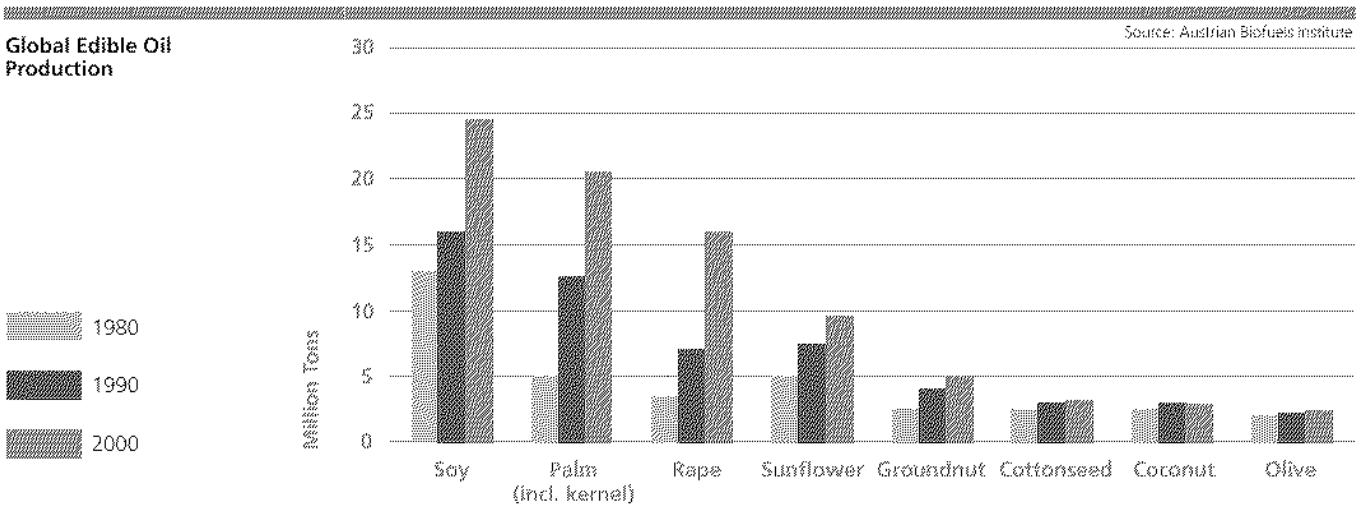
- g) New oilseeds:** In order to produce an "ideal" Biodiesel the following fatty acid profiles would be required:
- Lowest possible levels of polyunsaturated fatty acids such as linolenic acid (18:3) in order to increase oxidation stability.
  - Highest possible level of mono-unsaturated fatty acid such as oleic acid (18:1) in order to achieve good stability together with improved winter operability.
  - Lowest possible level of saturated fatty acids such as palmitic (16:0) and stearic acid (18:0) for improved winter operability in countries with cold winter climate.

Such new varieties are already commercially available and planted (high-oleic rapeseed and sunflower, low-linolenic rapeseed) and represent a very interesting feedstock source from a Biodiesel quality point of view. It is expected that HO-sunflower as developed and sold by Pioneer Seeds is taking a leading position in the drier countries of Southeastern Europe (Bulgaria, Hungary, Romania, Serbia, Ukraine) in the coming years.

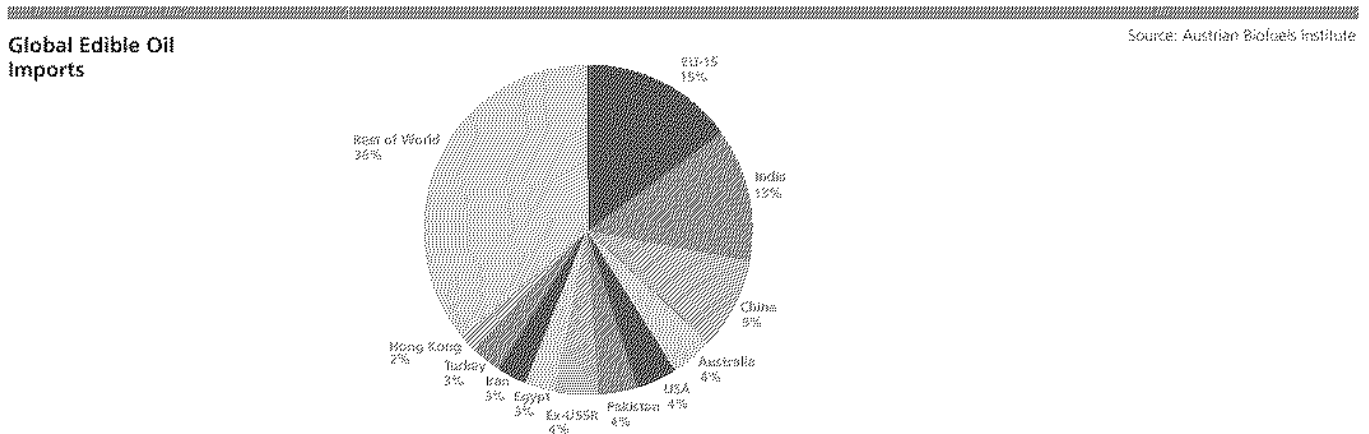
**Global fresh oil supply**

Oilseeds, meal, and edible oils are commodities that are traded globally. In 2002, 119.4m tons of edible oils were produced worldwide. Of this, 13.1m tons were rapeseed oil. In 2002, worldwide Biodiesel production was approximately 1.8m tons. Since oil is converted to Biodiesel on a one to one basis, if the plants had used only fresh oils (and not other feedstocks, as described above) they would have consumed 1.5% of the global edible oil production. Had they been run only on rapeseed oil, they would have consumed 13.7% of feedstock available that year. Biodiesel plants are an important buyer of rapeseed and other oils, but globally there is no shortage of supply.

Globally, edible oil production has increased dramatically over the past 20 years.

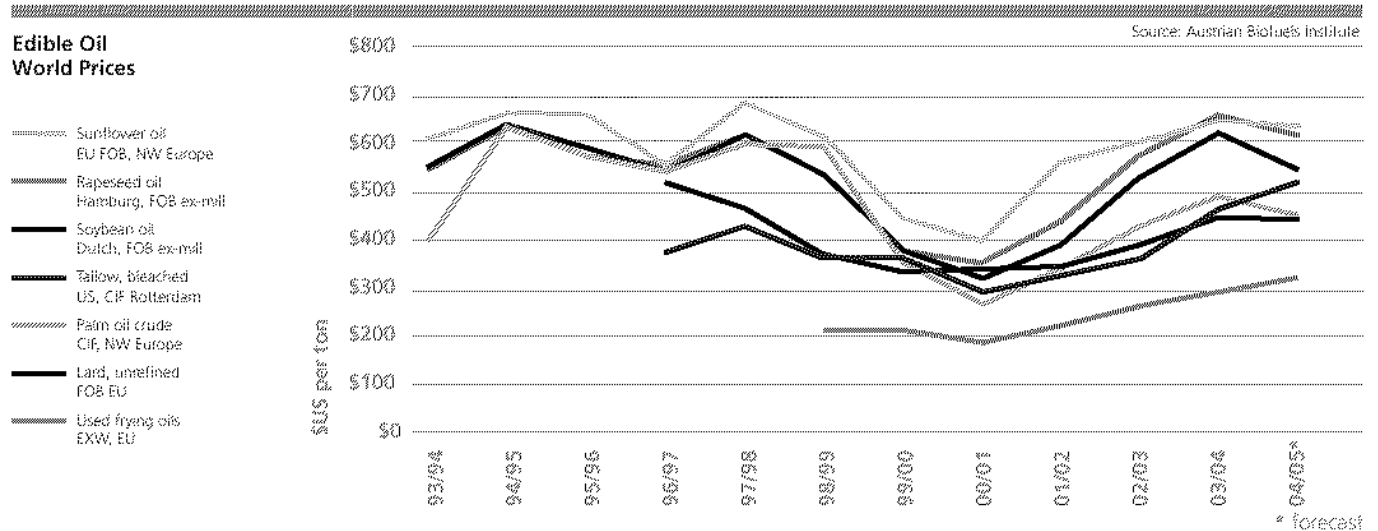


The EU is the largest importer of edible oils on the international market:



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The price of these edible oils varies considerably over time:



### EU Domestic Feedstock Supply

At present rapeseed oil as highly suitable feedstock has by far the leading position in supply with an estimated share of approx. 95%, while sunflower oil taking second place at a rather minor volume followed closely by recycling oils and fats.

It is expected that triggered by the tremendously increased demand for feedstock more and more food-rapeseed in addition to non-food rapeseed is going to be used for Biodiesel production. This allows increasing the available volume beyond the limits as set in the Blair-House agreement.

Recycled vegetable oils and fats have obtained great attention as they represent a cheap source for feedstock supply and are not affected by EU land use policies. They are however limited in volume (est. 1 million ton collectable) and require a strict quality management for sorting out oils and fats (e.g. with high polymer content), which are unsuitable for producing Biodiesel according to the European standard EN 14214.

It can be assumed that even at best utilisation of all suitable European feedstock sources available, which are virgin oils from non-food as well as food acreage (rapeseed, sunflower) and recycling oils and fats, and even after inclusion of the large acreage potentials in the EU accession countries, which have double the acreage per capita than the EU-25 but yet low productivity, there will be not sufficient supply available to meet challenging goals beyond the target of 5,75% market share in 2010.

Facing the strongly increasing demand for additional feedstock and the limitations of oilseed production within the European Union it can be expected that other oil sources such as rapeseed oil (e.g. Canada, Ukraine), soy oil (e.g. USA, Argentina) and palm oil (e.g. Malaysia) are being imported and blended into a feedstock mix in European Biodiesel production sites producing according the Biodiesel fuel standard EN 14214.

### 3. Process Technology

The basic chemical reaction of the transesterification of suitable oils with methanol in the presence of a catalyst is well known. It appears to be very simple as well as a strong temptation for "hobby-inventors" and "home-brewers", who quickly start to "produce" a kind of a methyl-ester of undefined quality. Sometimes such a process technology is characterized that the ingredients are mixed in open barrels.

The observed significant problems occur when this "fuel" is put into the nowadays sophisticated diesel engines with high precision fuel injection equipments, which require a very high quality fuel regardless of origin (fossil or bio) in order to achieve highest fuel efficiency linked to dramatically reduced exhaust emission levels as required by European legislation (Euro I, II, III, IV, V) while increasing torque and power.

The appearance of groups of "hobby-inventors" and "home-brewers" seems to be a firm symptom of any country, which is entering the Biodiesel-phase.

Industrial process technology however has advanced significantly since the early days of 1988 and later. The ever increasing requirements for producing high quality according to strict Biodiesel fuel standards has been the driving force for switching from batch processing to continuous process technologies with fast liquid-liquid separation of methyl-ester and glycerine and with accurate cleaning steps for the final Biodiesel meeting the standard EN 14214 or better.

Purposely this report does not contain a list of potential process technology providers and plant engineering companies.

#### 4. European Biodiesel fuel standard

The assurance for consistently high quality of the new fuel was a key issue for developing confidence in Biodiesel among all customer groups, specifically the Diesel engine and vehicle producer and the fuel injection equipment companies. Beside existing criteria related typically to fossil Diesel e.g. Cetane number and CCR (Conradson Carbon Residue), new criteria and analytical methods related to the oleo-chemistry had to be developed e.g. for defining Mono-, Di- and Triglyceride levels or Acid number.

In 1994 Austria published the first final Biodiesel standard ON C 1190, then only for Rapeseedoil-methyl-ester (RME), followed soon by ON C 1191 for Fatty-acid-methyl-ester (FAME) in July 1997, thus allowing a broader scope of feedstock sources to be used for Biodiesel production.

Other standards followed in Czechia (CSN 65 6507), France (by decree), Italy (CUNA NC 635-01), Sweden (SS 15 54 36), and the German DIN E 51606 as well for FAME.

With the objective to create a European standard the European Commission appointed the CEN (COMITÉ EUROPÉEN DE NORMALISATION) with a mandate to develop standards concerning minimum requirements and test methods for Biodiesel. This work was started by end of 1997 in several working groups and participation from e.g. Volkswagen, Daimler-Chrysler, Volvo, Bosch, Total, Shell, staff from several university institutes and national Biodiesel producers (Austria, France, Germany, Italy, Sweden). Having completed this key tool for quality assurance the new and pacesetting EN 14214 fuel standard for Biodiesel was officially published in 3rd quarter of 2003.

EN 14214 has replaced national standards for Biodiesel quality in the EU. It sets forth the minimum requirements for Fatty Acid Methyl Esters (Biodiesel) whether sold pure or blended into petroleum-based diesel. According to the European EN 590 specification for petroleum-based diesel, Biodiesel meeting EN 14214 may be blended into European diesel fuel in quantities up to 5% and the blended product can still conform to EN 590. All diesel vehicles in Europe can therefore run on 5% Biodiesel without modification and with full manufacturer warranties.

A number of companies have agreed to limit the release of injection equipment for admixtures up to a maximum of 5% Fatty Acid Methyl Ester (meeting the EN14214 standard) with unadulterated diesel fuel (meeting the EN590 standard). They have also agreed that the final product B5 must also comply with EN590 "and that non-compliance of the fuel to standards agreed by the Fuel Injection Equipment manufacturers will render the Fuel Injection Equipment Manufacturers' guarantee null & void."

The latest and probably best Biodiesel fuel standard has been developed in Australia, which integrates all present experience on Biodiesel standardisation worldwide.

A comparison of the European and Australian standards can be seen on the following page.

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Standard/Specification		Unit	EU EN 14214 July 2003 FAME automotive	Australia September 03 FAME
Density	15°C	kg/m <sup>3</sup>	860-900	860-890
Kinematic	20°C	mm <sup>2</sup> /s	-	-
Viscosity	40°C	mm <sup>2</sup> /s	3.50-5.00 <sup>*16</sup>	3.5-5.0
	I.B.P.	°C	-	-
Distillation	5%	°C	-	-
	95%	°C	-	≤ 360 / 90%
	250°C	%	-	-
Distillation	350°C	%	-	-
	370°C	%	-	-
Flashpoint		°C	≥ 120	≥ 120
CFPP		°C	<sup>*22</sup>	TBA <sup>*16</sup>
Pourpoint	sum/winter	°C	-	-
Cloud point		°C	-	-
Total Sulfur		% mass	≤ 0.0010	≤ 0.005/0.001 <sup>*23</sup>
CCR	100%	% mass	-	≤ 0.050
	10%	% mass	≤ 0.30 <sup>*17</sup>	or ≤ 0.30
Sulfated ash		% mass	≤ 0.02	≤ 0.020
(Oxid) Ash		% mass	-	-
Water cont.		mg/kg	≤ 500	-
Total contamination		mg/kg	≤ 24 <sup>*18</sup>	≤ 24
Water & Sediments		% vol.	-	≤ 0.050
Cu-Corrosion	3h/50°C		class 1	≤ No. 3
Cetane No.		-	≥ 51	≥ 51
Acid value		mgKOH/g	≤ 0.50	≤ 0.80
Oxidation	IP 306	g/cm <sup>2</sup>	-	-
Stability	ISO12205	g/cm <sup>2</sup>	-	-
	EN 14112	h	≥ 6.0	≥ 6
Thermal stability			-	-
Storage stability			-	-
Methanol content		% mass	≤ 0.20	≤ 0.20
Saponification		mgKOH/g	-	-
Ester content		% mass	≥ 96.5	≥ 96.5
Monoglycides		% mass	≤ 0.80	-
Diglyceride		% mass	≤ 0.20	-
Triglyceride		% mass	≤ 0.20	-
Free glycerol		% mass	≤ 0.020	≤ 0.020
Total glycerol		% mass	≤ 0.25	≤ 0.250
Iodine No.			≤ 120	-
Linolenic methyl ester		% m/m	≤ 12.0	-
Polyunsaturated	≤4 doub.b.	% m/m	1 <sup>*19</sup>	-
Phosphorus content		mg/kg	≤ 10.0	≤ 10.0
Alcaline metals	Na + K	mg/kg	≤ 5.0	≤ 5.0
Alcaline metals	Ca + P	mg/kg	≤ 5.0	≤ 5.0
Net calorific value		MJ/kg	-	-

\*16 If CFPP is -20°C or lower, the viscosity measured at -20°C shall not exceed 48 mm<sup>2</sup>/s

\*17 ASTM D 1160 shall be used to obtain the 10% distillation residue

\*18 Pending development of a suitable method, EN 12662 shall be used

\*19 Suitable test method to be developed

\*22 like diesel fuel

\*23 Beginning with 1 Feb 2005

\*24 Alcohol

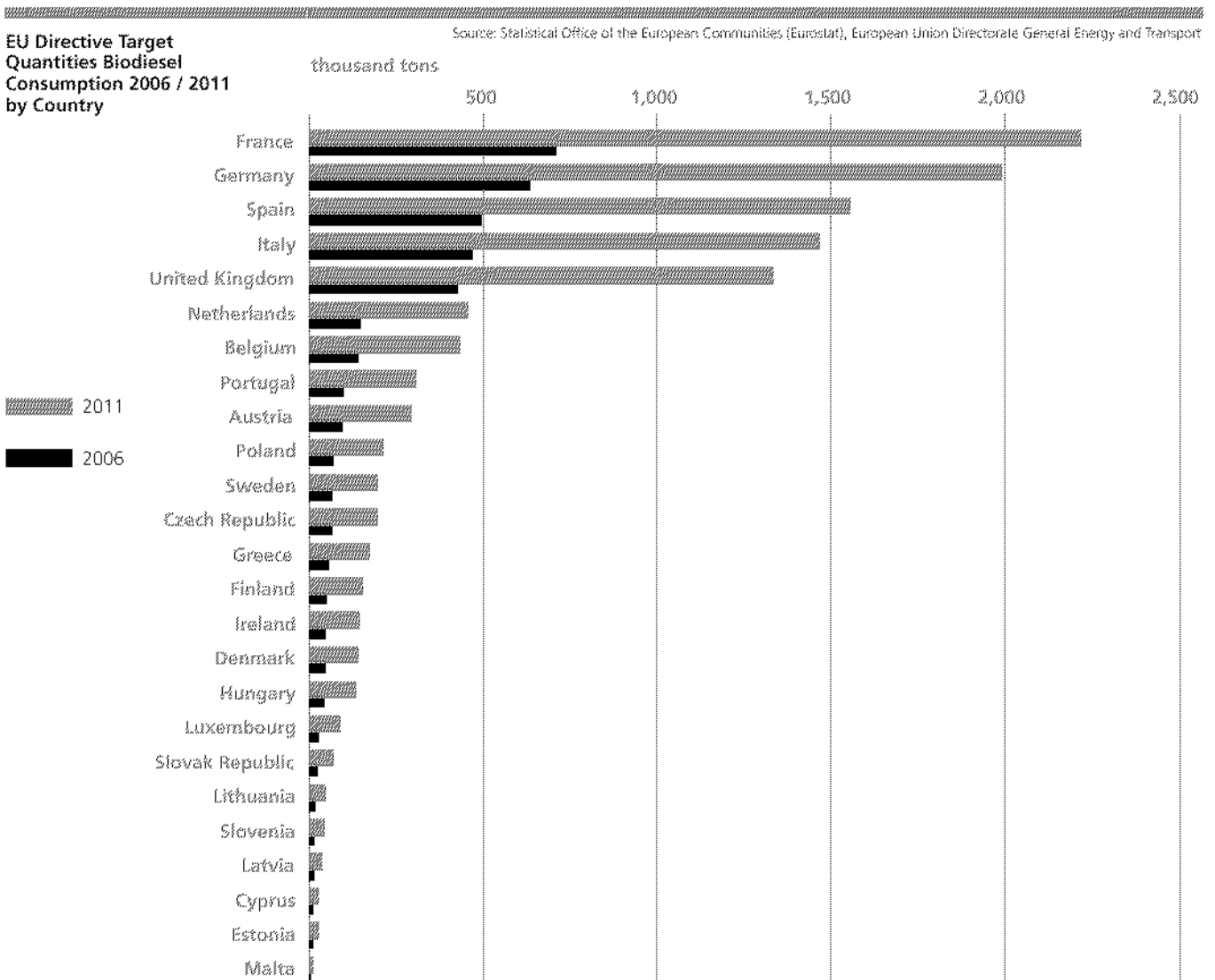
\*25 Only for FAME as heating fuel solely, same limit as for mineral oil according to national regulations

\*26 Free for additives for cold flow improvement or cloud point depressing, only for blending purposes

**5. Legal framework and regulations**

On May 8, 2003, the EU passed Directive 2003/30/CE. This states that by December 31, 2005, biofuels should make up at least 2% of the fuels placed on the market, and by December 31, 2010 they should be 5.75%. The market share shall be calculated on the basis of the energy content of all petrol and diesel used for transportation purposes. Furthermore, all Biodiesel sold, whether pure or blended, should comply with EN 14214. Blends up to 5% do not need to be labelled. The directive applies to all member states of the EU.

Implementation of this market share directive would lead to the following sales volumes per country.

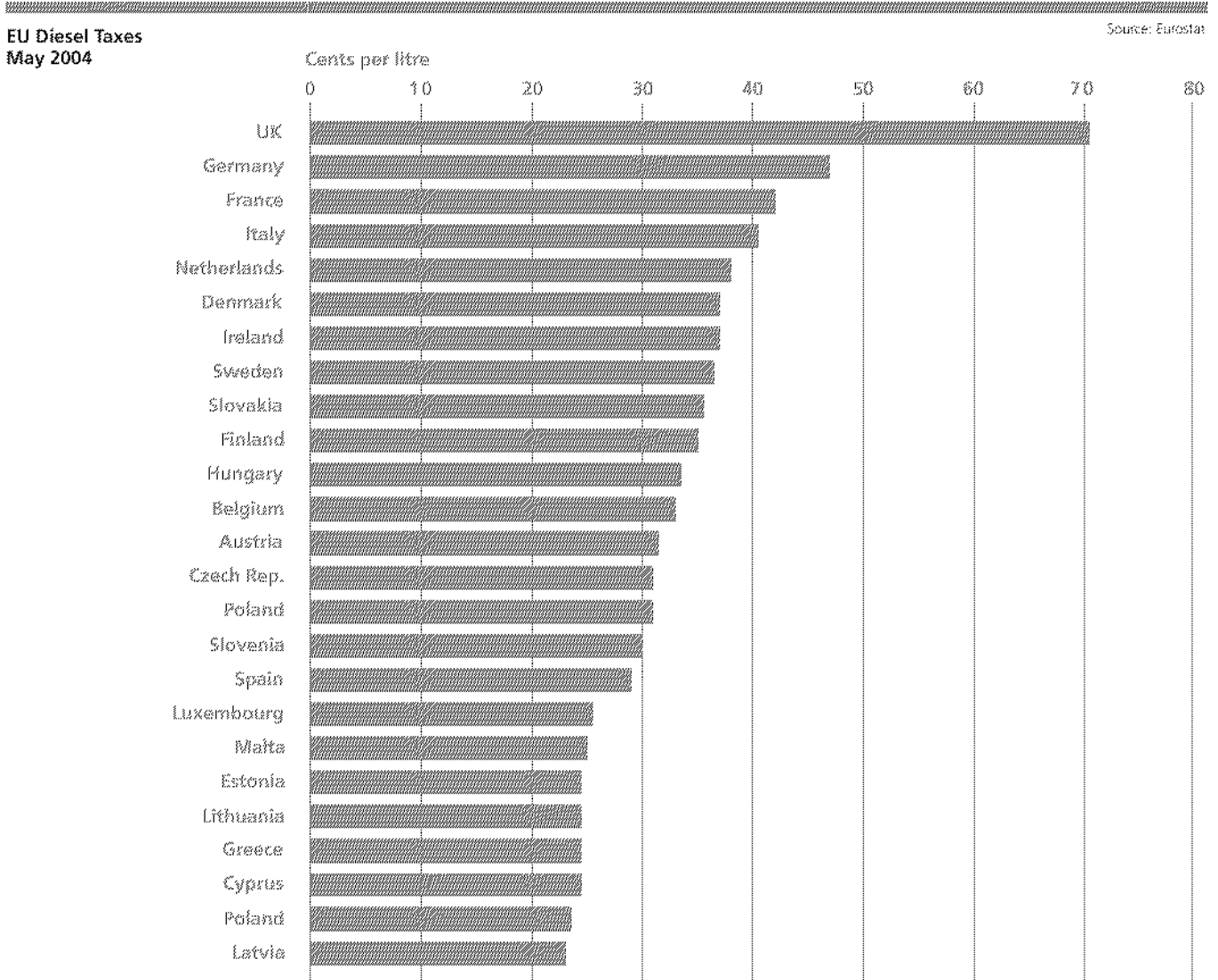


On October 27, 2003, Directive 2003/96/CE was passed. This states that tax rates on biofuels can be reduced or set to 0. The level of reduction can be adjusted to take account of changes in raw material prices to avoid over-compensating for the extra manufacturing costs of biofuels. Tax reductions can be put in place for up to six years and may be renewed.

In addition, the Directive sets forth the minimum level of taxation applicable to diesel oil used as a motor fuel, namely Euro 302 per 1.000 liters as of January 1, 2004 and 330 Euro per 1.000 l as of January 1 2010. Several member countries negotiated delays in when they need to implement this minimum level of

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taxation. Spain, Austria, and Belgium negotiated levels of 302 by Jan. 1, 2007 and 330 by Jan. 1, 2012; Luxembourg and Portugal levels of 302 by Jan. 1, 2009 and 330 by Jan. 1, 2012; and Greece negotiated 302 by Jan. 1, 2010 and 330 by Jan. 1, 2012. The other countries that were members of the EU at the time (most importantly the UK, Germany, France, and Italy) did not negotiate delayed implementation. The 10 mainly eastern European countries that have joined the EU since the passing of the Directive have likely also negotiated delays in implementing the minimum level of taxation.



Many countries have already implemented tax breaks on Biodiesel and an exemption from the excise tax on diesel is the most common. Please note that VAT is still payable on Biodiesel and that the tax rates and therefore tax breaks are subject to periodic change.

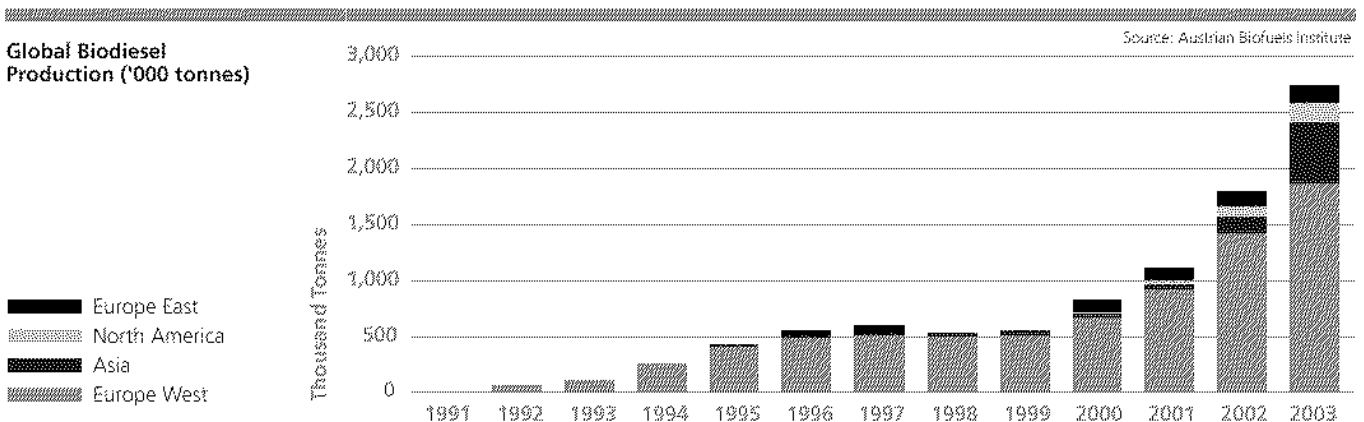
**Biodiesel tax breaks compared to fossil diesel, 2004**

Country	€ cents/litre	note
Germany	47	100% tax break
Italy	40	100% tax break on limited volume
Netherlands	36	100% break likely implemented 2005
Sweden	35	100% tax break on limited volume
Hungary	34	100% tax break
France	33	2004 level, on limited volume
Czech Rep.	33	100% tax break in 31% blends
Belgium	31	100% break likely implemented 2005
UK	30	20p per liter
Spain	29	100% tax break on limited volume
Austria	29	100% tax break
Estonia	25	100% break likely implemented 2005
Lithuania	25	100% tax break
Greece	0	being evaluated
Latvia	0	being evaluated
Netherlands	0	being evaluated
Portugal	0	being evaluated
Slovakia	0	being evaluated
Malta	0	
Finland	0	
Ireland	0	
Denmark	0	

**6. Biodiesel production in the EU and globally**

**Global production**

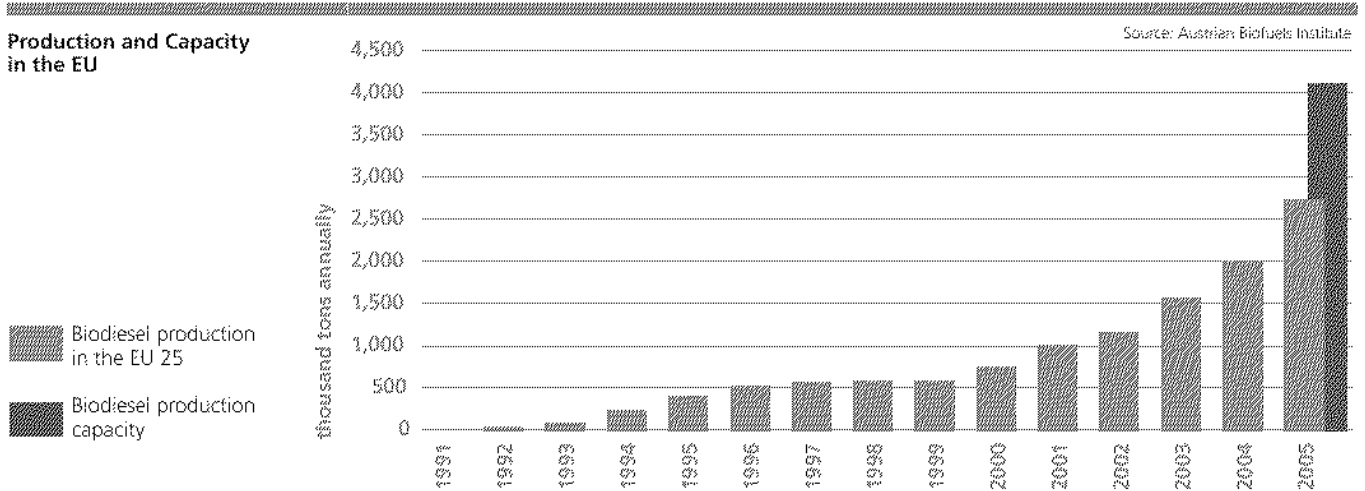
Global Biodiesel production is booming. Europe is still the largest producer of Biodiesel, but Asia and North America have been showing very strong growth since 2000 as well.



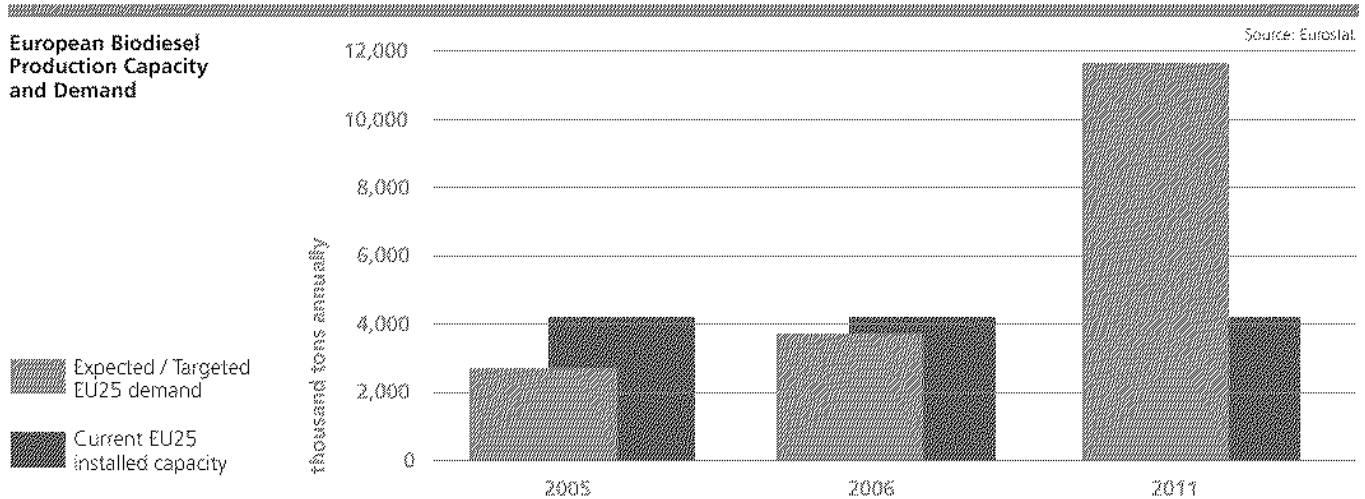
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## European production

Since 1992 Biodiesel production has strongly increased. It is estimated that approximately 2.7m tons of Biodiesel will be produced in the EU in 2005. The present trend is characterised by a faster growth of Biodiesel production capacity than of actual production and marketing of Biodiesel. In 2003 the main Biodiesel producing countries in the EU-25 were Germany (market share: 50%), France (25%), and Italy (19%).



Implementation of the EU Directive calling for biofuel market share targets requires almost a tripling of production capacity in the next years since the currently installed capacity cannot nearly meet the needs.



## 7. Marketing strategies

Not unexpectedly quite a variation of different marketing approaches can be observed, which can be described as follows:

### a) Commodity Strategy

Biodiesel is sold as a pure fuel, but there is no visible product differentiation in comparison to the competitive fossil Diesel at the fuel station; any existing differential advantage (e.g. ultra-low-sulphur fuel) is not utilised in the communication to the customer. In this case Biodiesel is usually sold only on a lower price as a cheap fuel (e.g. Austria).

Another commodity strategy is to blend Biodiesel in refineries into fossil Diesel up to 5% and sell it anonymised at fuel pumps (e.g. France).

**b) Quality Strategy**

Biodiesel is sold as a 100% pure fuel and is differentiated as a quality product, which is highlighted by a quality seal at the pump, where informative product information flyers are distributed to the customer (e.g. Germany). This is also a defense strategy against poor Biodiesel quality produced by home-brewers.

**c) Brand Strategy**

The fuel (pure or blended between 1 – 20% with fossil Diesel) is differentiated by a specific trademark (e.g. "Bio-Plus", "Soygold", "Envirodiesel"). Differential advantages are promoted and linked to a differentiating pricing strategy (e.g. USA, United Kingdom).

**8. Country overviews**

**Austria**

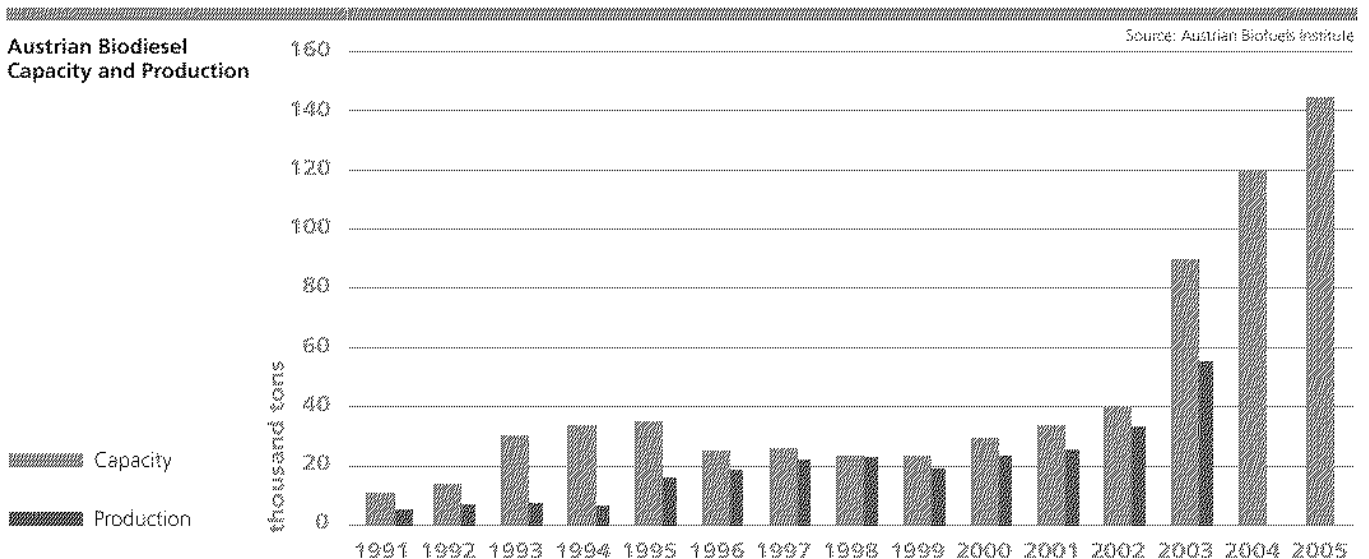
Pure Biodiesel is exempt from mineral oil tax as are blends up to 2%. From 2 to 5% the tax rate is reduced compared to petroleum-based diesel.

In 2004, the Fuels Ordinance was amended and now states that as of April 1, 2005, oil companies must sell a minimum of 2.5% biofuels by energy value the transport sector. As of April 1, 2007 the minimum shall be 4.3%, and as of April 1, 2008, 5.75%. A 5% by volume blend of Biodiesel and 5% of bioethanol or 15% of ETBE into petroleum is not enough to reach the 5.75% goal. Due to this, pure Biodiesel is expected to continue be sold in addition to the blended volume – currently, 111600 tons annually are envisioned to be sold pure to reach the 5.75% target.

In total, the current forecast is to sell 220.900 tons of Biodiesel in 2005, 317.500 in 2007, 481.900 in 2008. Of the 55.000 tons produced in 2003, 90% were exported since higher prices can be achieved in Italy and Germany. These higher prices are due to the different tax breaks in effect there. In Austria, pure Biodiesel is sold approximately 3 – 4% below the price of fossil diesel.

Presently there are 5 commercial production plants in Austria:

Energiea Umwelttechnologie GmbH:	40.000 tons	
Ölmühle Bruck GmbH:	25.000 tons	
Biodiesel Kärnten GmbH:	25.000 tons	
SEEG:	6.000 tons	
RME Treib- und Heizstofferzeugung:	1.500 tons	
Bioenergy – Biodiesel-Erzeugung:	20.000 tons	(stopped because of quality problems)
PPM Energie:	1.500 tons	(closed because of too small capacity)
Bäuerliche Ölsaatenverarbeitung:	1.000 tons	(closed because of too small capacity)



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Until recently, Biodiesel was only marketed as a 100% pure fuel. This opened a series of positive arguments to improve the acceptance by the consumer, but also by politicians, such as: significant reduction of exhaust emissions, fast biodegradability, lowest oral and dermal toxicity, high transport and handling safety.

Raiffeisen, the farmers' cooperative retail shops, offers Biodiesel on 25 sales points. AWI, a fuel discounter, is the main distributor in volume with 23 fuel pumps followed by AVIA with 13; in total 88 pumps are known to offer Biodiesel all over Austria. In addition, Rudolf Biodiesel Vertrieb is a distributor for southern Austria. This family-owned company is also a shareholder in the new Biodiesel plant in Arnoldstein (Biodiesel Kärnten). Since 2004, Biodiesel is also blended into regular diesel.

Concerning the market segment "public transport" the first field test were started in 1994 in Graz with 2 public buses (type STEYR SS 11 and MAN NL 202) running on Fatty-acid-methyl-ester (FAME), which was produced from recycled frying oil.

After the successful pilot test with two buses, eight additional buses were converted to Biodiesel in a common project of the Grazer Verkehrsbetriebe (public transport company of Graz) and the Department of Environmental Protection of the City of Graz, and an own filling station was installed. Due to the positive experience, the use of Biodiesel by the company was extended to the whole fleet.

For 25 buses with an annual consumption of approx. 600.000 litres, the emission savings are as shown below:

Annual reduction in emissions when 25 buses are filled up with Biodiesel

CO	CO <sub>2</sub>	NO <sub>x</sub>	HC	Soot	SO <sub>2</sub>
1.460 kg	1,250.000 kg	+/- 0	1.500 kg	510 kg	1.380 kg

In the year 2000 approx. 40 buses were running on Biodiesel made from recycled frying oils (originating from Mc Donald's and other restaurants) and from that time on, the GVB accepts in their procurement policy only those buses, which are approved by the manufacturer for the use of Biodiesel (FAME).

The collecting systems for recycled frying oils have been constantly improved; the most efficient originated from Tyrol and this ATM-System "ÖLI-TM" is now licensed out to recycling management systems in Vienna, other Austrian counties and also to Germany and Italy.

### Cyprus

Cyprus does not currently offer incentives for the sale of biofuels.

Since February 2004, the government does however offer grants of 40% of the capital cost for constructing Biodiesel and other biofuel plants (maximum grant CY Pounds 400.000, or approx. EUR 680.000). Some interest has been expressed to date.

There is no Biodiesel produced in Cyprus and by October 2007 a research program on energy crops and bioethanol production should be completed that will help formulate further policies. National indicative biofuels targets are also being studied and formulated.

### Czech Republic

In 2003 there were 14 Rapeseed Methyl Ester (Biodiesel) producers in the Czech Republic with an actual production capacity of approx. 100.000 tons of RME per year and a further plant is in the planning stage. The plants range in size from 2.000 to 55.000 tons per year. The largest are Setuza's plant at Olomouc at 42.000 tons, its plant at Mydlovary with 15.000 tons and Agropodnik's plant at Jihlava-Dobronin at 55.000 tons. The quality produced at the plants varies and they employ various production technologies. By 2005 several of the very small scale Biodiesel production plants were closed down because of quality problems and lack of competitiveness.

The plants were set up after a state aid program was called into life in the early 1990s intended to aid rural development in addition to producing a "green" fuel. Today, the government still subsidizes RME producers CZK 9.500 per ton of RME in a 31% blend, but the program is limited to 100.000 tons per year.

In addition to the direct subsidies, the Biodiesel portion of the 31% RME blends are exempt from the national diesel tax, which is CZK 9.95 (approximately EUR 0.33) per litre.

68,800 tons of Biodiesel were produced from rapeseed oil in 2002 and realistic estimations define approx. 120,000 t/a as the maximum national potential based on this feedstock. Public filling stations are the main distribution; currently there are more than 200 Biodiesel stations nationwide.

Biodiesel blended into petroleum-based diesel must meet EN 14214.

The Czech Republic currently intends to produce 100,000 tons of RME in 2006 and 120,000 in 2010. Details of the program will be finalized as the state budget and crop production allow.

#### **Denmark**

Emmelev Mølle A/S is the first and so far the only commercial producer of Biodiesel in Denmark. The firm has a capacity of 30,000 t/a, started operations in 2001 and produces Biodiesel from rapeseed oil.

Because of lack of political support and tax breaks for the transport sector, the whole production volume is exported and successfully sold to neighbouring countries.

The government has calculated that it would lose DKK 250 million (approx. 33.5m Euro) if 2% of diesel sold domestically were Biodiesel that did not pay diesel tax and DKK 800 million (approx. 107.5m Euro) if 5.75% were sold diesel tax free. The government states that it lies well above the EU average in terms of energy from biomass due to its production of electricity and heat from biomass. It considers this to be enough and does not intend to set national targets for the use of biofuels.

#### **Estonia**

It is expected that biofuels used as motor or heating fuels will receive a full exemption from the excise duty as of Jan. 1, 2005.

There is currently no production of biofuels in Estonia and none have been sold. All liquid fuels are imported. All rapeseed grown has been used as cooking oil. Any Biodiesel produced would need to be from new domestic farmland or imported feedstock.

In 2005 the impact of the tax exemption will be analyzed and further policies formulated in order to meet the EU targets.

#### **Finland**

Partial relief from the excise tax can be granted to biofuels used for research and testing.

There have been small trials of Biodiesel production for use as a transport fuel, tested in a few vehicles, but overall sales have been negligible.

Since cost of production for arable crops in Finland is among the highest in the EU, it prefers using wood as a biofuel. It uses all the rape it grows for domestic food purposes and imports large quantities in addition to this. It prefers increasing the amount of biofuels it uses in heat and power generation (wood, grasses) to producing transport fuels. It has set its target for liquid biofuels for Dec. 2005 to 0.1%. In the long term, if biofuels can be made from wood or waste-based raw materials or if the oil price increases, they may be attractive. As it is, Finland calculates it could produce maximally 2% of its transport fuels needs from domestic raw materials.

#### **France**

4 Plants are responsible for more than 420,000 t/a of Biodiesel capacity:

- Grand-Couronne (250,000 t/a): The biggest dedicated Biodiesel production plant in the world. In 1995 Grand Couronne started its production with impressive 120,000 t/a, later expanding to 180,500 t/a and to 250,000 t/a as a last step.
- Compiègne (100,000 t/a): The first small scale pilot plant built with the technology developed by the Institut Français Du Pétrole (IFP) began commercial production of 20,000 t/a in 1993, a further expansion is planned.

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- Verdun (33.500 t/a): an adapted chemical plant that started production in 1995.
- Boussens (40.000 t/a): First Biodiesel batches were produced in this methyl-ester plant that is still operating.

Tax exemption is granted up to the established state quota for the year. The state decides what volume of Biodiesel it will grant a tax break on and then holds a tender, calling for bids from European Biodiesel producers. It then decides which bids to accept and negotiates what level of tax break will be given.

In order to benefit from tax incentives, Biodiesel has to be produced by the winning bidders in the certified production facilities. The following companies acquired a share within the fixed quota for 2002:

### French tax-exempt production quota

Plant location	Capacity (t/a)	Quota 2002 (t/a)
Diester Grand-Couronne (F)	250.000	180.500
Diester Compiègne (F)	100.000	60.500
Novaol Verdun (F)	33.500	33.500
Diester Boussens (F)	40.000	33.000
ADM Connemann Leer (Germany)	100.000	10.000
<b>Total</b>	<b>523.500</b>	<b>317.500</b>

In 2003, sales of 387.500 tons of Biodiesel were allowed at a reduced tax rate and 321.000 tons were actually sold. This volume of actual sales corresponded to approximately 1% of the diesel fuel sold in France by weight. In September 2004, the French Prime Minister announced a plan to produce 800.000 tons and to increase this further still to 1,200.000 tons by 2007 in order to comply with the EU's target quantities.

Biodiesel is marketed along 2 different marketing strategies:

1. The by far largest volume of Biodiesel is blended into fossil diesel up to 5% in 7 mineral oil refineries and is sold to the general public without any further differentiation. The final Biodiesel content can vary and is not known to the customer as it is anonymised in the blend.
2. The second strategy is to promote a 30% Biodiesel blends within the activities of the "Partenaires Diester" to large transport fleets. The following cities are participating with their bus fleets:

### French bus fleets using Biodiesel

Name	Start	Type, number of vehicles	RME-blend
AGEN	1991	22 buses	30%
ALENCON	1995	10 PL, 10 VL and 18 buses	20%
AMIENS	1992	47 (VL, VU, PL)	30%
ANGOULEME	1993	12 buses	30%
BORDEAUX	1992	10 buses	100% then 30%
CAEN	1993	180 buses	30%
CAHORS	1993	36 (PL, VL, VU)	5% then 30%
Chalon-Sur-Saone	1993	36 buses	5%
CHELLES	1994	35 (buses and VU)	5%
CRETEIL	1994	78 (all types)	30%
DUNKERQUE	1992	95 buses	5%
EPERNAY	1994	50 buses and VL	30%
EVREUX	1994	40 buses	30%
GRENOBLE	1992	60 buses	30%
LA ROCHELLE	1993 and 97	87 buses	5% then 30%
LE HAVRE	1996	441 (all types)	10%
LAON	1992	19 buses	30%
MONTAUBAN	1992	3 buses	30%

MULHOUSE	1992	8	5%
NANCY	1993	20, then 180 buses	30% then 20%
PALAISEAU	1996	50 (PL, VL, VU, cars)	5% as a start
PARIS	1992	120 PL and 1 600 VL	30%
PAU	1992	87 TCP and 8 VU	30%
ROANNE	1993	45 buses and 2 VU	5% then 20%
ROUEN	1991	200 buses and 20 VL	30%
SALON DE PROVENCE	1994	89	5%
SARREGUEMINES	1994	30	5%
SOISSONS	1996	16 buses	5%
STRASBOURG	1992	390 PL, 106 VU, 338 engines	30%
VALENCE	1993	75 buses	5%

VL = light vehicle VU = staff car PL = heavy goods vehicle TCP = Passenger transport vehicle with more than 9 seats

In order to widen the scope of membership, the "Club des Villes" was re-organized and renamed to "Partenaires Diester" in March 2003, which allows large commercial fleets to take advantage of all the supportive measures of the French Biodiesel industry.

#### Germany

There are 23 Biodiesel plants in Germany with a total installed production capacity of 1,056,000 t/a (ranked by current production capacity):

Ölmühle Hamburg AG	120.000 t/a
Ölmühle Leer Connemann GmbH & Co KG	100.000 t/a
Mitteldeutsche Umesterungswerke Bitterfeld	150.000 t/a
Natur Energie West	100.000 t/a
Biodiesel Schwarzheide GmbH	100.000 t/a
Rheinische Bioester GmbH	100.000 t/a
Campa Biodiesel GmbH	75.000 t/a
Biodiesel Wittenberge GmbH	60.000 t/a
Bio-Ölwerk Magdeburg	50.000 t/a
Thüringer_Methylesterwerke GmbH & Co. KG	45.000 t/a
Petrotec GmbH	35.000 t/a
EOP Elbe Öl AG	30.000 t/a
Biodiesel Kyritz GmbH	30.000 t/a
SARIA Bio-Industries GmbH & Co. Verw. KG	12.000 t/a
Biodiesel Bokel GmbH	10.000 t/a
Kartoffelverwertungsgesellschaft Cordes & Stoltenburg	10.000 t/a
Hallertauer HopfenVerwertungsgesellschaft	8.000 t/a
Landwirtschaftliche Produktverarbeitungs GmbH	5.000 t/a
PPM Umwelttechnik GmbH & Co.KG	5.000 t/a
BioWerk Sohland GmbH	5.000 t/a
BioWerk Kleisthöhe GmbH	5.000 t/a
BKK Biodiesel GmbH	4.000 t/a
Verwertungsgenossenschaft Biokraftstoffe	2.000 t/a

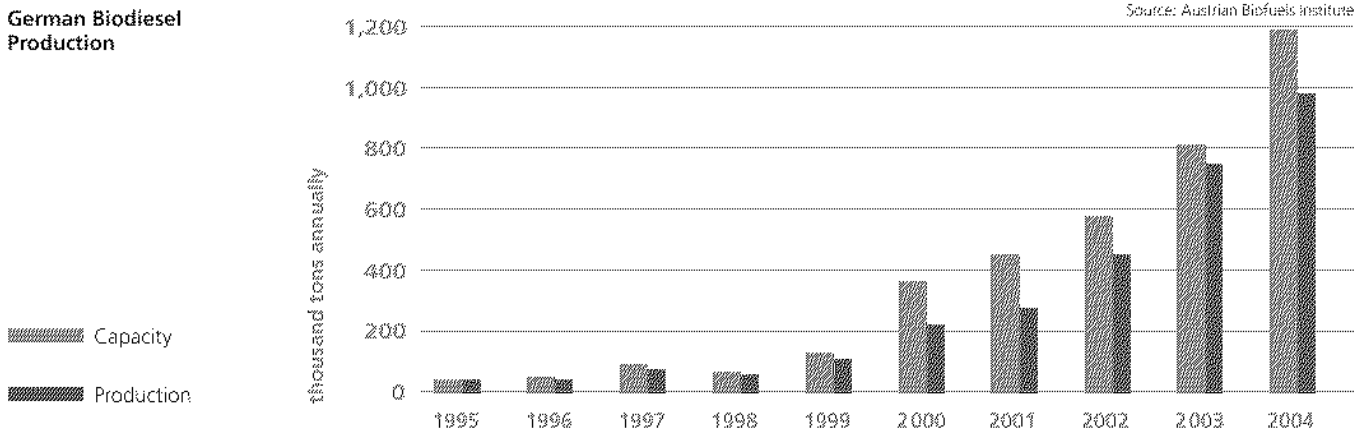
Additionally it is reported that there are 3 more plants under construction with a total capacity of 240.000 t/a.

Marina Biodiesel GmbH & Co.KG	100.000 t/a
NEVEST AG, Rostock	100.000 t/a
Rapsveredelung Vorpommern GmbH	40.000 t/a

This means that with a Biodiesel production capacity of around 1.2 million tonnes in 2004, the total capacity will have increased almost twentyfold since 1997.

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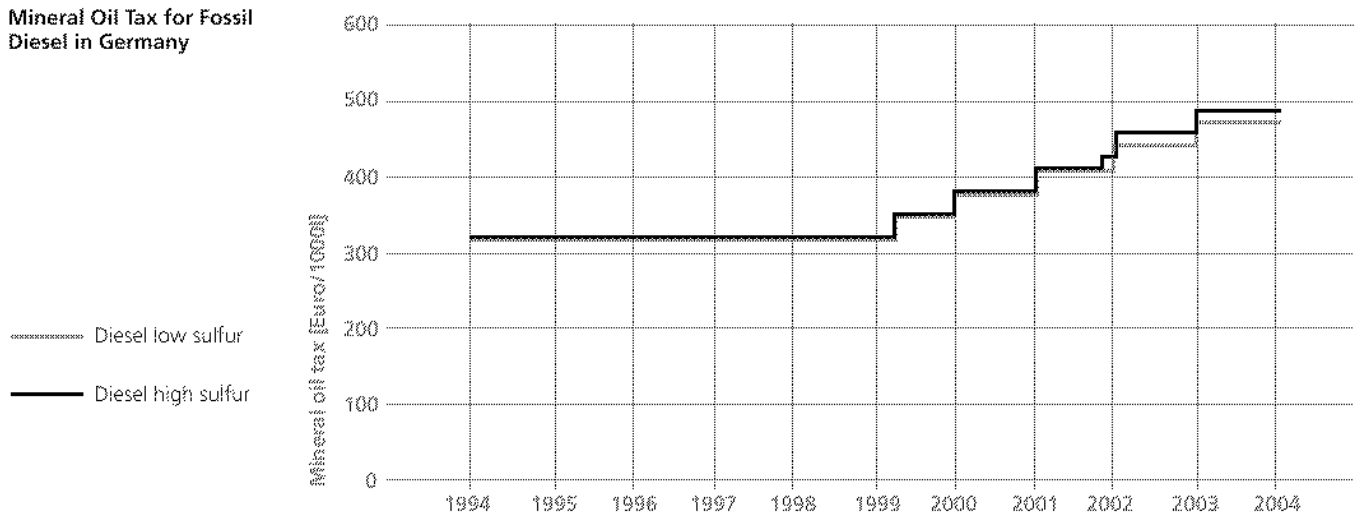
## German Biodiesel Production



German law defines that mineral-oil taxation applies only to mineral-oil based fuels; consequently Biodiesel enjoys full detaxation since the very beginning.

On June 7th 2002 the German Bundestag had its final reading of the new law for the tax relief for biofuels. It was endorsed by the Bundesrat on June 21st and will extend the tax exemption until December 31st 2008.

## Mineral Oil Tax for Fossil Diesel in Germany



The scheduled rise in the mineral oil tax for diesel and other fossil fuels will lead to a significant price advantage of Biodiesel compared with the fully taxed fossil diesel.

Ecological tax (Eco-tax): From April 1999 onwards this climate change motivated additional tax will be added to the mineral-oil tax and increased step by step. Biodiesel as a greenhouse gas saving product is exempted from this tax.

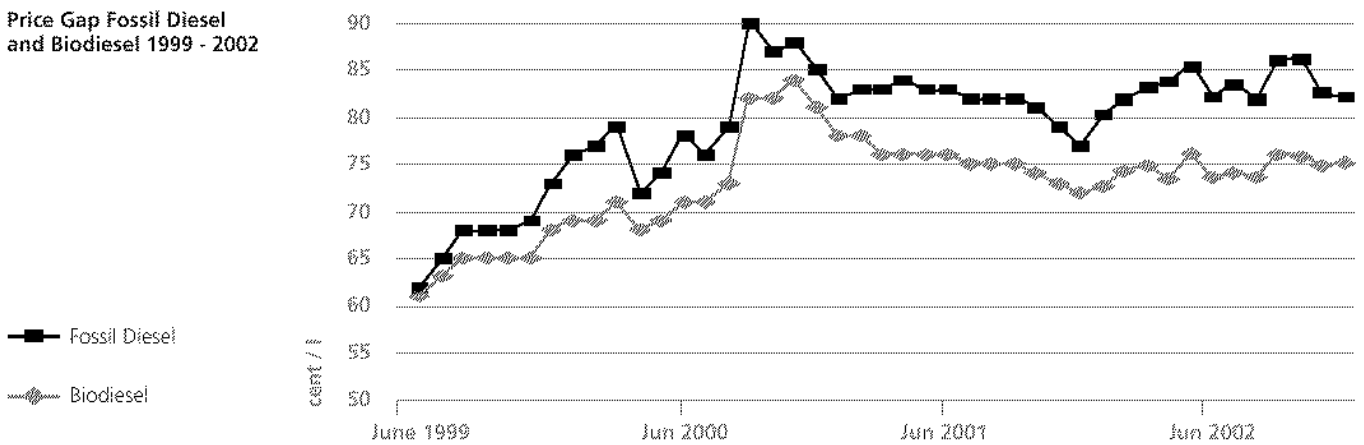
In contrast to tax legislation in France and Italy there is no restrictive quota in place and hence no upper limit for the production of Biodiesel.

The main characteristic of Germany was to market 100% pure Biodiesel since only pure Biodiesel was

given tax exemptions. In 2003, around 30% of the Biodiesel was sold at 1.700 public filling stations and 70% through major customers such as truck fleets, public transportation fleets and taxi companies. For the so-called "free stations", Biodiesel has become an important supplementary product for survival in the tough competition between filling stations; therefore the marketing of Biodiesel through the public filling station network will be certainly extended in the future.

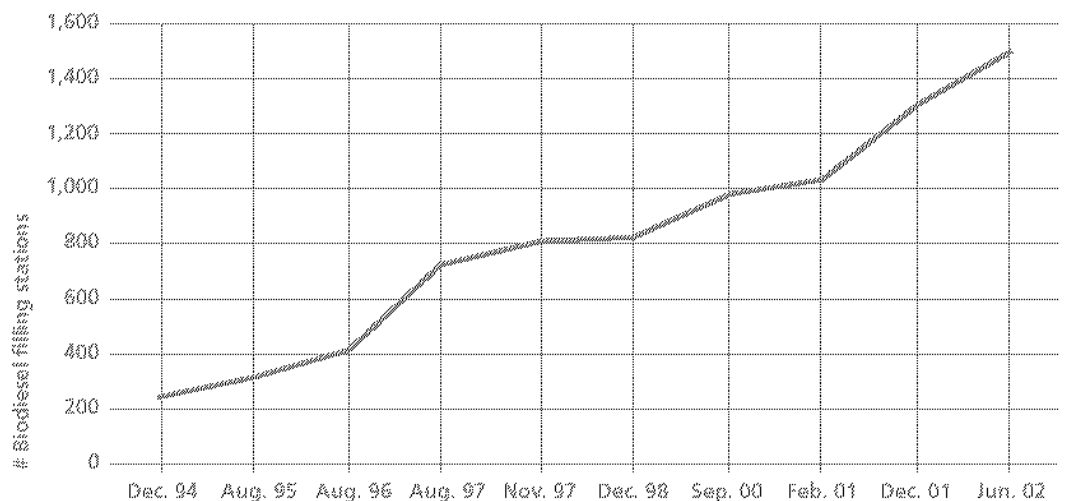
One main drive for initial demand was certainly the cost savings realised when switching from fossil diesel to Biodiesel. Since then, the price gap has even increased.

Price Gap Fossil Diesel  
and Biodiesel 1999 - 2002



In 2003 over 1.700 filling stations offered Biodiesel, which is every 10th public filling station in Germany.

Development of the  
Biodiesel Filling Station  
Network in Germany,  
1994 - 2002



This leads to an average distance between to Biodiesel selling petrol stations of about 23 km, and realistically estimated there is potential for a further 1.000 petrol stations. An indicative list of petrol stations grouped by region and postal code can be found at: <http://www.ufop.de>.

As of Jan. 1, 2004 the tax exemption applies to biofuels and heating oils produced from biomass whether sold pure or blended. Since then, blended sales have taken place in Germany as well.

A long-term government strategy for the promotion of alternative fuels and drive technologies is currently being formulated and is expected to be completed shortly.

### **Greece**

Biodiesel was imported in small quantities 1998-2000 by a fuel trade company for demonstration purposes, but none has been imported since and none is produced domestically.

However, in December 2004 a plant in Kilkis with a capacity of 40.000 tons was expected to start up and a plant with a capacity of 40.000 tons in Volos in May 2005. Both plants received financial aid from the Operational Programme for Competitiveness and can produce to EN 14214.

The government estimates it will need 46.976 tons in 2005, 71.851 tons in 2006, 97.695 tons in 2007, 111.986 tons in 2008, 126.739 tons in 2009, and 148.407 tons in 2010 in order to meet the EU's percentage targets based on energy value.

Greece intends to blend up to 5% by volume with mineral based diesel in local refineries and distribute the blend through the existing infrastructure. The percent will be set each year by the Ministry of Development and the Ministry of Economy & Finance, "according to the quoted available quantities of Biodiesel in the local market". The Biodiesel to be blended must conform to EN 14214 and the final product to EN 590.

For concentrations of Biodiesel above 5%, Greece will carry out additional studies on fleets with old diesel engines, since that is what most Greek diesel-fuelled vehicles are (Euro 0 or 1).

The plants starting up will initially use imported feedstocks (rapeseed oil, soybean oil, etc.) as well as some domestically produced oils (cottonseed oil, used frying oils, etc.). In the future, the increased cultivation of oilseeds is planned domestically with the involvement of the Ministry of Rural Development and Foods.

Detaxation is still being evaluated and government has calculated it could lose as much as Euro 740m in revenues from 2005-2010 depending in how it is implemented.

### **Hungary**

Two pilot plants for Biodiesel production were built in 1999 and it was planned to sell the product tax-free back to those who delivered the raw materials. However, the excise tax on regular diesel for agricultural producers was then lowered, the Biodiesel thereby became commercially unattractive, and the program failed. In 2003, there were no sales of biofuels.

On September 22, 2004 the government approved the refund of the excise tax on biofuels until 2010 in order to promote the blending of biofuels into standard engine fuels. Blends of up to 5% are intended since this is what is allowed by EN 590. The current intention is that the sales of pure Biodiesel will not occur.

Hungary targets 0.4 – 0.6% by energy as the sales target for biofuels in the transport sector in 2005. It has justified this target, which is below the EU directive, because of its limited national production capacity, its poor national growing conditions for rapeseed, and because it is implementing other biomass energy projects. The feedstock supply situation may change however significantly once the high-oleic sunflower breeds are cultivated, which produce an excellent oil for Biodiesel production.

### **Ireland**

From May 2003 to May 2004, 18.000 liters of rapeseed oil was used as a fuel by the 17 light commercial vehicles of the Cork City Council. This was the only use of biofuels in Ireland to date.

In order to start some activity in the field of Biodiesel, Ireland has developed the following scheme: Biodiesel meeting EN 14214, blended up to 5% into diesel, can apply for relief from the mineral oil tax if the blend complies with EN 590 and if it is used in the scope of a testing program or pilot project. In total, no more than 900 tons can qualify annually for all projects together. This program still needs to be approved by the EU and once it is, the first Call for Proposals can be advertised.

In addition, 10% of the capital cost of plants with a capacity from 13.000 to 22.000 tons can be funded by Sustainable Energy Ireland.

As a target for 2005, Ireland suggests not the 2% the EU has stated, but rather 0.06%. If large-scale

projects start up, higher targets may be set for subsequent years. However, Ireland argues that biofuels are a high-cost method of carbon abatement, that certain emissions may be higher, that there are agricultural limitations on the amount of feedstock which can be produced, etc.

General excise tax relief is not currently being considered.

**Italy**

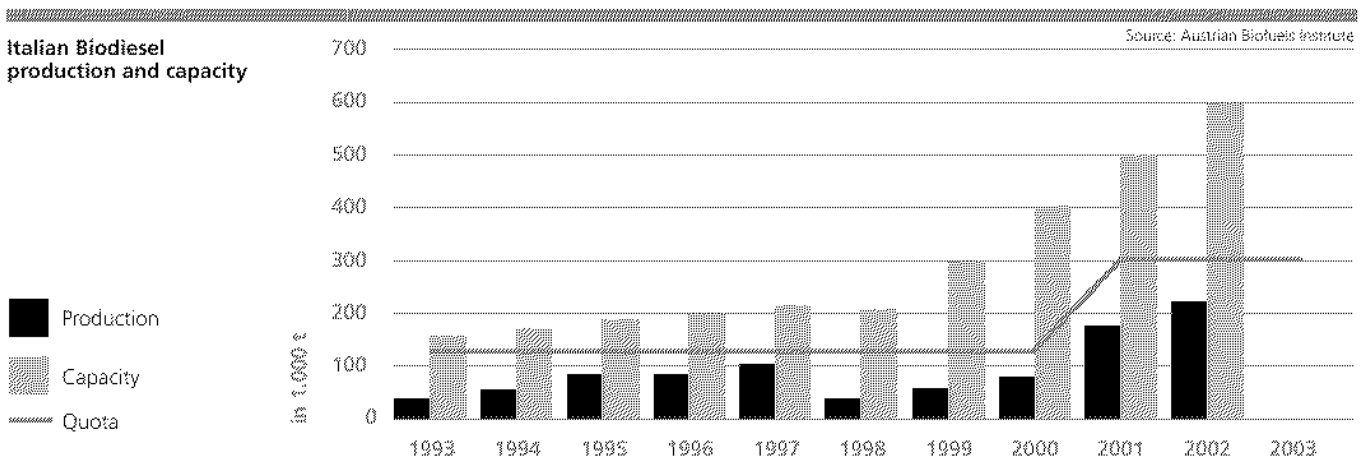
Presently there are 7 companies producing Biodiesel (ranked by capacity):

Novaol Group	Capacity in Livorno: 60.000 t/a, to be doubled by June 2004. (Total Novaol Group capacity: 250.000 t/a in 2004)
Bakelite AG	220.000 t/a
Fox Petroli	80.000 t/a
ItalBiOil	80.000 t/a
Comlube	40.000 t/a
De.fi.lu	35.000 t/a
Estereco	35.000 t/a

In 2002 effective production was 220.000 t of Biodiesel with an overall production capacity of 600.000t/a; due to the constant market situation there are no additional capacity investments planned in the short term.

In 1994 Biodiesel was fully tax exempt without any volume limitations. One year later the Italian Government modified the law and introduced a quota of 125.000 t of Biodiesel for tax exemption. Nevertheless production in 1998 was still less than 90.000 t/a with most of the volume being used as heating oil enjoying there the same high tax exemption while quality demands and distribution cost being lower.

The last finance act of 2001 extended the tax exemption to 300.000 t/a of FAME (for application as Biodiesel as well as heating oil light) thereby improving the competitive position of FAME. This regulation will expire in 2004 but the Ministry of Finance still has to approve the prolongation of this tax advantage. Additional production exceeding this quota is fully taxed and not competitive with fossil diesel.



According to the current regulations, only max. 5% of Biodiesel can be blended into heating oil and max. 25% Biodiesel into fossil Diesel for transportation.

Fatty-acid-methyl-ester has found its main market segment in the heating oil market as there are lower distribution cost and lower quality requirements than in the diesel fuel market at equal taxation level to diesel fuel for the transport sector.

Recently several producers have enlarged their marketing activities to position Biodiesel in the transport

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sector as well, where a blend of 5% Biodiesel with fossil diesel is used in large fleets. Novaoil has furthermore launched a project called "one hundred cities on sunflower" with a blended Biodiesel product for use in public transport.

The municipal transport fleets of Milano, Ravenna and Pesaro are going to switch to Biodiesel.

Overall activities in Italy have been limited so far to utilise Biodiesel mainly in the heating oil segment and not in transportation as exercised in all other European countries. With the new Directives of the European Commission in place the well established and experienced Italian Biodiesel producers will have to reconsider their marketing strategy in order to fully exploit the new market opportunities in the transport sector.

### **Lithuania**

As of May 1, 2004, biofuels or the biofuel component of blended fuels are exempt from excise duty. This policy to promote biofuels has been adopted in order to reduce dependence on petroleum-based fuels and increase the use of local energy resources.

In August 2004, the Program for the Promotion of the Production and Use of Biofuels 2004-2010 was started by the government which will develop specific action plans for the use of biofuels in transport.

Specific action have been taken by the bus companies of the capital Vilnius and the city of Kaunas by joining the Biodiesel-project "Innovative Biodiesel" within the ALTENER-programme of the European Commission, which provides guidance to adapt older city bus fleets for the use of Biodiesel.

### **Latvia**

In 2002 and 2003, 2.500 tons of Biodiesel were sold in Latvia. Nevertheless, Latvia intends to meet the EU targets for biofuels in the transport sector, increasing from 11.000 tons of Biodiesel in 2005 to 43.000 tons in 2010.

On July 22, 2004 it adopted the Action Plan for the Production and Use of Biofuel in Latvia, which set out which tasks are to be achieved, which institutions are responsible, what deadlines must be met, etc. The draft Law on Biofuels, currently being discussed in the Parliament, will create the framework for the sector to operate once it is passed.

For 2005, the government has allocated EUR 700.000 to subsidize raw material purchases by biofuel producers and has requested EU approval for this. This works out to EUR 0.04 per liter (Biodiesel plus bioethanol).

Direct tax breaks are not currently given.

### **Malta**

Malta produced 26.5 tons of Biodiesel in a demonstration plant in 2003 using recycled oils as feedstock. The Biodiesel produced was then used in Malta's "heavy plant". Due to the country's inability to cultivate the raw materials required for Biodiesel production (it is almost totally dependent on imports for food), it does not want to set targets for Biodiesel sales in the transport sector.

Tax breaks are not given for Biodiesel.

### **Netherlands**

The Netherlands have no biofuels industry and only approximately 3.500 tons of Biodiesel and pure vegetable oil have been used as fuels in small-scale demonstration projects. The country is, however, formulating a legislative framework to support the biofuels industry that will be announced in 2005.

The target 2% sales to the transportation sector have been set for 2006 instead of 2005 in order to allow the start-up of a national industry. The Netherlands intend to structure their law so that the annual percentage is not only the minimum target for biofuel sales, but also the maximum amount of petrol and diesel that is displaced, indicating that it will set up a quota system.

Currently, no support is offered to the biofuels industry.

### Portugal

Portugal has no significant sales of Biodiesel and a legal environment supporting sales is expected to be publicised shortly.

Portugal states that it has limited capacity for producing feedstock and no biofuel plants in operation, so its target percentage for biofuels sold to the transport sector is approximately 1% for 2005. This is comprised of 50.000 tons of Biodiesel and 15.000 tons of bioethanol blended into conventional fuels in addition to the 18.000 tons of Biodiesel voluntarily used by public transportation fleets.

The laws currently being developed regarding biofuels foresee an exemption from the fuel tax up to a target quantity set every year, a fuel tax exemption beyond the target for pilot projects, a compulsory quota if the target was not reached in the previous year, and voluntary agreements for using blends above 15% in public transportation fleets. This is expected to be passed shortly.

Currently, Portugal does not have measures supporting the sale of Biodiesel.

### Slovakia

Slovak firms produced 30.000 tons of Biodiesel in 2001 but production fell to 6.000 tons in 2002 and 4.000 tons in 2003 when state subsidies were abolished. Biodiesel production is still not supported in Slovakia.

The government has calculated that it needs to blend 46.922 tons of Biodiesel or 63.500 tons of bioethanol into fuel by Dec. 31, 2005 and 151.762 tons of Biodiesel or 205.384 tons of bioethanol by Dec. 31, 2010 in order to meet the EU targets.

Slovakia proposes creating laws that allow the blending of up to 5% Biodiesel into "red diesel", which has a reduced excise rate and is sold to the agricultural, forestry, rail, and public transport industries. It also proposes starting the process of creating laws regulating Biodiesel's on-road use in order to meet the targets it has calculated.

### Spain

Currently there is one plant operating:

Stocks del Valles, Catalonia 6.000 t, can be extended to 18.000 t in a second phase

Three more are under construction:

Biodiesel-IDEA	5.000 t
Bionor Transformación	18.000 t
Bionet Europa	50.000 t

Two more plants are in design stage:

Biocarburants de Catalunya	100.000 t
Biodiesel-Caparroso	30.000 t

Additionally there are a few small-scale pilot and research plants planned or in operation (Minano, Madrid, Gijon).

Spain produced 5.819 tons of Biodiesel domestically in 2003 from recycled frying oils and consumed 65.810 tons nationally.

Biodiesel is sold in Spain to public transport companies for use in their bus fleets and since February 2003, it is also sold as a B-30 blend (70% fossil diesel, 30% Biodiesel) at selected filling stations of the company Petromiralles.

Spain is currently offering full detoxation of Biodiesel or the Biodiesel component of blended diesel. It has reserved the right to raise the tax on Biodiesel if the production costs no longer require such a tax break for the final product to be competitive.

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### Sweden

Currently there is only the company Svenska Ecobränsle AB, which is producing and offering Biodiesel for the Swedish market. Recently this group has started a project to build a bigger plant in Karlshamn in Southern Sweden with a capacity of 50.000 t Biodiesel per year at the seaside, with a pipeline coming from the existing oil mill of Karlshamns AB and a rail connection as well.

There is one further production plant with a production capacity of 26.400 t/a in design stage.

The Biodiesel produced by Ecobränsle is marketed by oil companies, both as a 2% blend (at public pump stations) and as a 100 % Biodiesel (mainly used in specific companies' vehicle fleets). In 2003, 4.800 tons of Biodiesel were sold and of this, 89% was sold as a blend and 11% was sold pure.

The production of RME was started in the late 80's by small scale production plants run by farmers. In this period a considerable tax reduction was obtained reaching a level of 0,36 /l in the late 90's. This tax exemption ended in 2001.

Now, CO<sub>2</sub>-neutral fuels will be exempt from both the energy tax and the CO<sub>2</sub> tax (the two components of the Swedish excise tax on diesel) until 2009, if the EU approves. The government reserves the right to change these exemptions at any time if it feels biofuel producers are being over-compensated.

The annually determined Biodiesel quota for 2001 was 21.120 t (24.000 m<sup>3</sup>), but only approx. 7.000 t were utilised. The quota for 2002 was fixed at the same level, and it is expected that the quota for tax-exempt Biodiesel is going to be increased.

Biofuels accounted for approximately 1.5% of the combined petrol and diesel markets in 2003. Sweden has therefore set its target for 2005 at 3%, above the EU guideline.

### Switzerland

After first research activities in the early 90's by various Swiss institutes (e.g. FAT, EMPA), a small but constant production of 2.000 t Biodiesel was established by Eco Energie Etoy. This is still the only production facility in Switzerland.

Biodiesel is sold in two ways:

- directly to agricultural co-operatives,
- to one Swiss petrol distributor that is selling Biodiesel at 5 public filling stations (all in the Bern district) where it is offered 100 % pure fuel.

Some transport companies use it as "Combi-Diesel", which is a 30% blend with fossil diesel.

Biodiesel is marketed at a price level of approx. 10 % lower than fossil diesel.

Fuels produced in pilot and demonstration plants from renewable raw materials are exempt from mineral oil tax. Tax exemption is granted by the Finance Department upon application. In order to promote the use of renewable raw materials, there is a price subsidy for oilseeds (rapeseed, sunflower) being processed in pilot and demonstration plants.

### United Kingdom

Estimates for current Biodiesel production are at about 5.000 t/a, but it is expected that this figure is soon to be outdated, as the new tax regulation will increase the number of professionally built industrial sized Biodiesel sites.

Rix Biodiesel Ltd	projected enlargement to 30.000 t/a
Global Commodities UK Ltd	(project in development)
Argent Energy	50.000 t/a planned capacity (feedstock is rendering fat)
Biofuels Corporation Ltd	250.000 t/a planned capacity under construction at a seaside harbour
Ebony solutions	Biodiesel sold under e-diesel brand

PetroPlus	Biodiesel sold under Bio-Plus brand, a blend of fossil diesel and up to 5% Biodiesel
Greenery	Biodiesel sold under GlobalDiesel brand, a blend of ULSD and up to 5% Biodiesel
Envirodiesel	sold "for easy storage and use at home"

Unfortunately one can observe quite a large group of hobby-inventors and home-brewers, sometimes also using a blend of unesterified recycling oils and fossil diesel, worthwhile to be mentioned as a typical development in a young and emerging market.

The main marketing activities are focused on the promotion of a 5% blend of Biodiesel with fossil diesel; part of the Biodiesel sold is imported from France, Germany, Denmark, and the USA. In 2003 17.171 tons of Biodiesel were sold in the UK.

Largest quantities are sold either directly to large fleets or through more than 100 filling stations. Close to the so far few small scale methyl-ester production sites, fuel is sold in containers of 25 to 1.000 litres; it can be assumed that there the quality management is maintained at a low level.

The government offers a 20p reduction in the duties payable by Biodiesel and this will remain in effect at least until 2007. The government is aware that this makes only the lowest cost production profitable, usually using recycled oils as a feedstock.

The target for 2005 is 0.3% biofuels in the transportation sector, of which the majority would be Biodiesel.

## 9. Importation of Biodiesel into Europe

### Level of international trade

When national Biodiesel industries first started operations in Europe, all Biodiesel produced was dedicated to the national market. The situation changed however when tax exemption schemes for Biodiesel came into force, which vary by country. Additionally the level of mineral oil taxation varies as well throughout Europe. Consequently countries with a high mineral oil tax and full tax exemption for Biodiesel attracted imports from countries with less generous exemption, e.g. from France into Germany.

In addition, Biodiesel is imported to countries, which are starting up their own Biodiesel industries. In the course of these start-up activities, demonstrations with truck fleets or bus fleets are often held in order to convince national stakeholders that Biodiesel is a viable fuel under local conditions. Since none is produced domestically yet Biodiesel is imported, often by the container, for this purpose. It has to be stated, however, that compared to the total Biodiesel production international trade is still relatively minor.

The exact amount of international trade in Biodiesel is not monitored yet. In Germany, the government's Energy Statistics Office will start to collect official national data on Biodiesel production based on raw materials used, plant capacity, national province sold to and international exports starting in 2004. Whether all other EU countries implement this as rapidly remains to be seen.

Of the international trade in Biodiesel, our best estimate is that a significant amount enters the United Kingdom. PetroPlus and Greenery are professional petroleum companies with production facilities in ports and networks of filling stations. They are actively promoting their trademarked Bio-Plus and GlobalDiesel brands of Biodiesel blends. With the implementation of the EU directive on biofuels, we believe they are attempting to establish strong positions in a market that has been regulated to grow. As the UK does not have enough production capacity at present to meet the needs of large-scale Biodiesel sales, firms must import. We are aware of shipments of approx. 5.000 tons from the USA to England in early 2003 and estimate the total level of annual imports from within and outside the EU to the UK to currently be 20.000 – 40.000 tons.

In 2003, a shipment of palm oil methyl ester was delivered to Frankfurt, Germany, in two to four 20 ton containers and there are other such small-scale shipments occurring. We are aware of plans to export Biodiesel from outside the EU to several European markets, but not of any significant exports that are occurring yet other than those to the UK.

### National quotas

Biodiesel exports to countries that have established national quotas for the amount of Biodiesel that receives tax breaks are difficult. This applies to four countries in Europe – France, Italy, Spain, and Sweden – and the Netherlands and Portugal have indicated they intend to go this route as well. Exports to France are almost impossible because individual producers have received quotas that are fully used. In Italy, current sales levels are below the allowed quota so exports are possible, but they are still bureaucratically more difficult than exports to the other EU countries that do not have any quotas. Exports from outside the EU into EU countries are possible except for the limitations posed by the quotas.

### Import duties

EU countries have harmonized their import duties so theoretically the duty paid when bringing Biodiesel into the EU will be the same regardless of which country it enters. An EU regulation has stated that Biodiesel is to be given the tariff number 3824xxx when entering the EU. The numbers after 3824 get changed often, so the specific numbers given depend on the classification system in place on the day it's imported. On 19. Nov. 2004 Biodiesel would have fallen into the TARIC number 38 24 90 99 990 in the EU according to the German National Customs Office

In Austria, Biodiesel has been imported and was given the EU tariff number 3824909990.

This follows a classification into the following subgroup:

- Article VI: Products of chemical and related industries
- 38 Various products within the chemical industry
- 24 Products of the chemical or related industries (including mixtures of natural products) not belonging to other categories
- 90 Other
- 99 Other
- 90 Other

Duties vary not only by product classification, but also by country of origin. If the country in which the Biodiesel was produced has a trade agreement with the country to which it is sold, it may be freed from import duties regardless of how it is classified. Goods imported into the EU from Australia under this tariff number are charged a duty of 6.5%.

### Sales tax

Import sales tax must be paid when Biodiesel is imported into the EU and the level varies by country. However, the tax can be reclaimed from the national tax authorities since the product will be resold. As such, sales tax is only a pass-through position for the importer, tying up cash until the money is returned, but not being an expense. In Austria, the tax law is in the process of being changed so that it will be possible for companies to not to pay the tax in the first place. This will avoid the cash drain the current system imposes upon companies. Other than the import duty and the sales tax, neither we nor the customs officers and tax accountants we interviewed are aware of any taxes payable when importing Biodiesel into the EU.

### Outlook

Since the new Directive for the Promotion of Biofuels has given a strong impulse for Biodiesel production, it can be expected that trade will be stimulated as well within the EU-25. We have observed as well an increasing interest of palm oil and soy oil producing countries (e.g. Malaysia, USA) not only to export their oil but also their oil-methyl-ester (Biodiesel) to Europe. The high level of taxation on petroleum-based fuels in the EU allows for high selling prices for Biodiesel, making such intercontinental sales attractive.

Yours sincerely



Werner Körbitz - Chairman  
Austrian Biofuels Institute

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Dear Directors

## INDEPENDENT REVIEW OF THE FEEDSTOCK MARKET

### 1. Introduction

This report has been prepared by ProAnd Associates Australia Pty Ltd (PAA) for inclusion in a Prospectus to be dated on or about 14 March, 2005 relating to the offer by Australian Renewable Fuels Limited (ARF) or the Company of up to 20 million fully paid ordinary shares of one dollar each, payable in full on application ("IPO")

The production and trade figures used in this document should be seen as market estimates. BSE (Mad Cow Disease), epizootic diseases (e.g. FMD), trade embargoes, taxation regimes, labour disputes, military conflicts, acts of terrorism and other events will affect trade flows.

#### 1.1 Background

ARF has conducted a feasibility study for the establishment of a biodiesel business in Australia.

ARF intends to build two plants, to be located in Adelaide SA and Picton WA. The Company intends undertaking an IPO in order to retire debt, satisfy existing liabilities and provide additional working capital.

As part of the preparation of the Prospectus, ARF wishes to engage a suitably qualified fats expert to conduct the necessary due diligence on the fat supply assumptions that will form the basis of the financial forecast in the Prospectus and provide an Independent Experts Report for the Prospectus.

#### 1.2 The Proposed Plants

The first plant is under construction, will be located in Adelaide, South Australia and has been funded using a mix of debt, government grant and equity. The second plant, which is also under construction, will be located in Picton, Western Australia and was funded through a recent \$16 million pre-IPO raising.

The design output of a single plant is 40,000 tonnes per annum of biodiesel.

Feedstock will be sourced from multiple sources including, but not limited to, tallows (fats), used cooking oils, seed crops and palm oil. Approximately 40,000 tonnes per annum of feedstock will be consumed at each site.

ARF has undertaken a detailed review of the historic fat market in Australia. This review has concluded that the only fat supply source that may be reasonably utilised for the forecast provisions

of the Prospectus is tallow due to the availability of long-term pricing histories and established available volumes. As noted above however, other fats are suitable as feed for the projects.

Contracts for the supply of fats needed for each project have been established with Gardner Smith Pty Ltd (GS).

#### 1.3 Brief

ARF requested an opinion from PAA, as a suitably experienced and qualified technical expert ("Independent Expert") in accordance with the following detailed Scope of Work. Specifically, the Independent Expert was required to provide an opinion, with suitable documentary or other support and detailed explanations on the following issues:

- Sufficient volume of fat is available for the proposed operations.
- The suitability of GS as contracted fats supplier.
- The suitability of the contract structure between GS and ARF.
- The suitability of the fat price forecasts used and the adequacy of the methodology used by ARF to achieve them.
- Any material supply risks which may impact on the delivery of the fats required for the project.
- Comment on the effect that ARF's entry into the fats market may have on local and international fats prices and supply volumes.
- The availability of other low-cost sources of fats.
- Any other issues that may in the author's opinion, and based upon current knowledge, mitigate against the Forecast contained in the Prospectus being achieved.

## 2. Production & Trade

### 2.1 Definitions

"Tallow" is a natural fat derived from animal tissue (in particular beef and sheep) which consists of a mixture of triglycerides (three fatty acids esterified with glycerol), with most of the fatty acids being saturated or mono-saturated with 16-18 carbon atoms. "Grease" is used to describe softer, lower melting point inedible tallows and pig fat is normally termed "lard". In Australia it is not unusual for "tallow" to be produced which is derived from a mixture of raw materials.

"Tallow Quality" is measured in terms of free fatty acid (FFA) content, bleachability, and impurities (moisture, insoluble matter and unsaponifiable matter – MIU). The quality of the tallow is affected by:

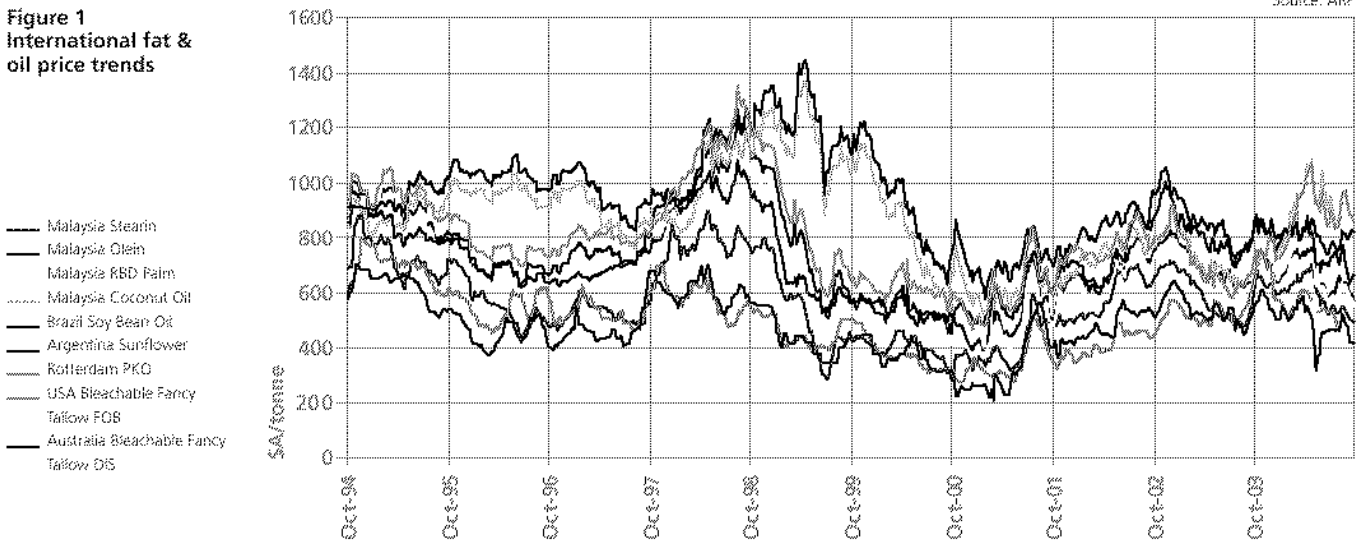
- Quality and type of raw material. In general: boning room fat and bone produces better tallow than slaughter operations (lower FFA and better bleachability); and beef slaughter waste produces better tallow than sheep slaughter waste (lower FFA, better bleachability, and less odour).
- The rendering process (particularly the raw material handling system and time to rendering which can increase FFA values).
- Tallow storage conditions (which can lead to increased FFA and higher oxidation – measured by peroxide content).

In Australia rendering plants are in the majority single rendering lines co-located with meat processing plants. Due to wide geographical distribution and high transport costs, these rendering plants process all available raw material in the one process line. From a raw material point of view beef processing operations where all production is slaughtered and boned in the one complex produces the better quality Australian tallow (e.g. Queensland export beef operations). Sheep and beef plants with no fabrication or boning operations which send raw material off-site for rendering provide the lowest quality raw material (e.g. Domestic registered slaughter operations).

### 2.2 Global Fats & Oils Complex

Animal fats including tallow hold a position in the global fats and oils complex. Figure 1 shows that price movement for animal fats and vegetable oils are closely related and rise and fall in unison depending on supply-demand pressures across the whole complex.

**Figure 1**  
International fat &  
oil price trends



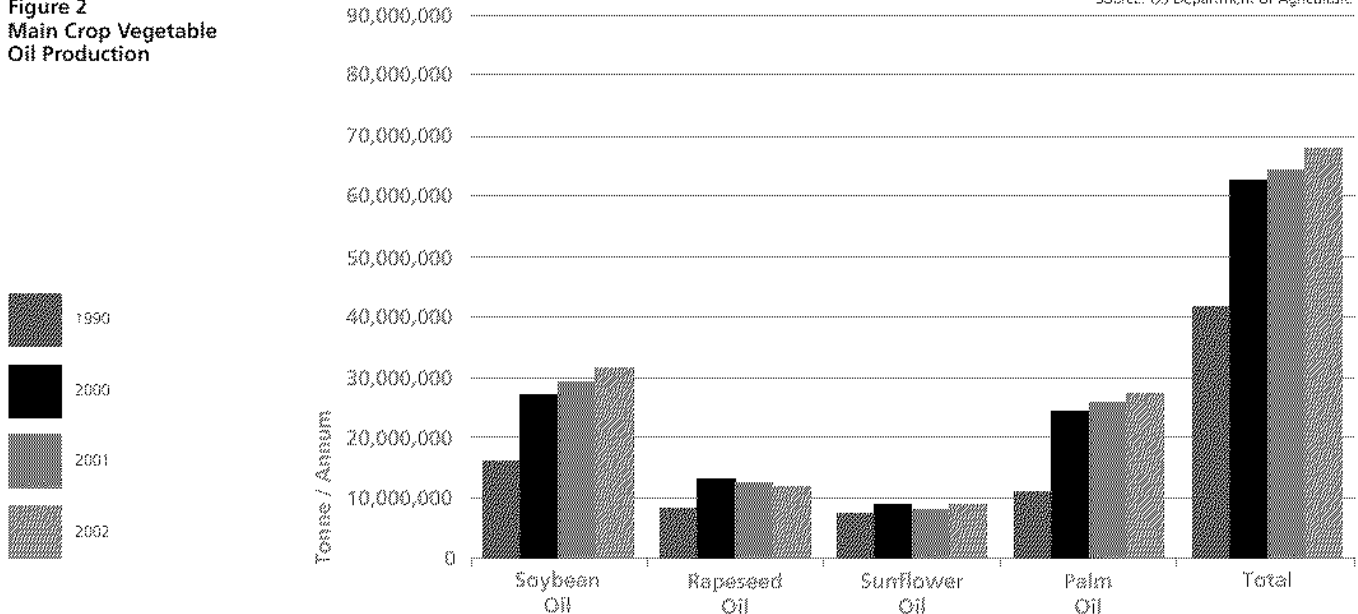
In particular, palm oil and tallow are strong competitors in the same oleo-chemical markets as the two products have similar fatty acid contents (tallow has an oleic:palmitic:stearic ratio of 45:29:22, while palm oil is 43:40:5).

There are four main oilseed crops grown worldwide. These crops have provided over 80% of total vegetable oil production since 2000.

# Independent Review of the Feedstock Market

**Figure 2**  
Main Crop Vegetable Oil Production

Source: US Department of Agriculture



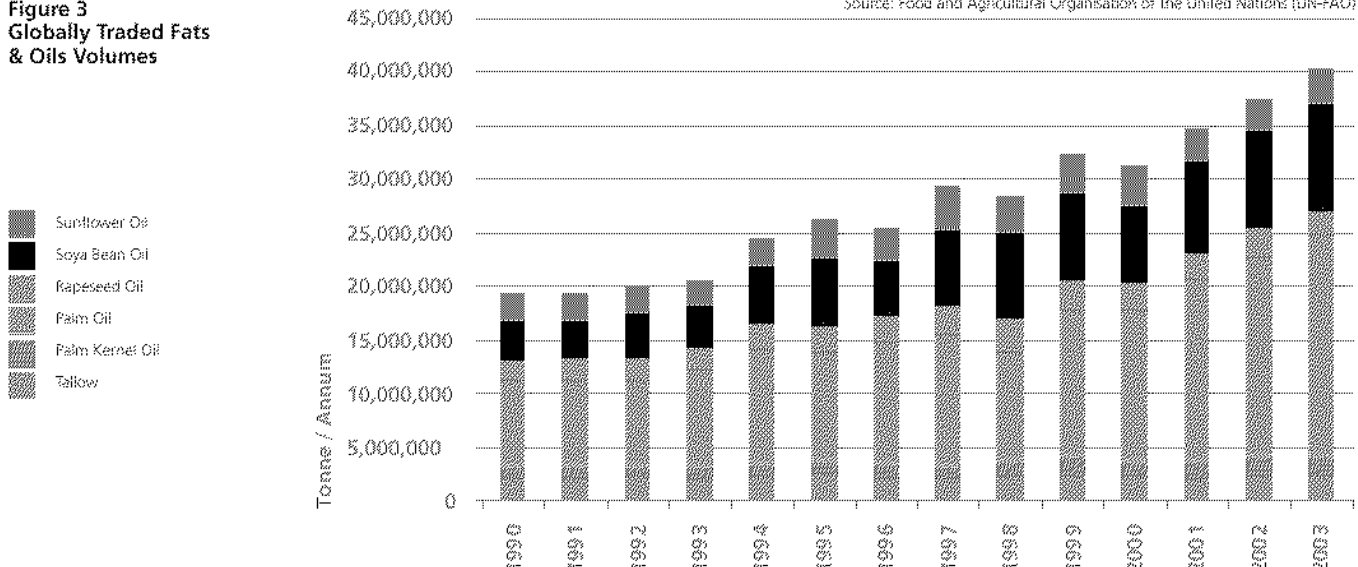
**Figure 2** shows the increase in production of oil from these main oilseed crops between 1990 and 2002. Palm oil production has increased almost 150% over the period and combined with soybean oil has been the principal source of increased vegetable oil supply.

**Figure 3** shows the significant growth in globally traded tallow and vegetable oil from the four main crops between 1990 and 2003. During the same period there has been virtually no change in the levels of tallow traded.

During the 1990-2003 period the total volume globally traded of the products in **Figure 3** doubled from 20 to 40 million tonnes/annum. During the same period the traded palm oil volumes increased from 8 to 20 million tonnes/annum. In 2003 palm oil contributed 50% of the globally traded volumes of the products considered and around 75% of palm oil produced was traded on the international market.

**Figure 3**  
Globally Traded Fats & Oils Volumes

Source: Food and Agricultural Organisation of the United Nations (UN-FAO)



### 2.2.1 Palm Oil Trends

Palm oil production growth has been mainly due to international demand for vegetable oils and local country based production support through financial incentives and export tax regimes.

The main palm oil producers are Malaysia and Indonesia who have provided over 80% of production in the period 2000-2003. Other producers include Nigeria, Thailand, Colombia, and Papua New Guinea, however, Malaysia and Indonesia are expected to remain the key producers with potential for sustained growth.

In order to foster increased palm oil production, Malaysia has instituted a replanting incentive scheme, and Indonesia has provided for the conversion of forest into plantations, of which a large area is suitable for palm oil plantation.

Palm oil has several competitive advantages, including:

- Low production costs.
- Recent reductions in tariff regimes (e.g. Indonesia's export tariff rate fell from 60% in 1998 to 3% in 2001).
- Palm oil properties suitable for a wide variety of end products with limited hydrogenation.

Major global palm oil markets are Asia (China and India), while Africa and EU are also significant consumers. Demand in China and India has been booming in recent years with double digit growth in market volumes.

Other factors that impact on palm oil demand include:

- GM (Genetic modification) technology has not been applied to the sector allowing palm oil end products to meet non GM requirements.
- Palm oil requires less hydrogenation and can provide TFA (Trans Fatty Acid) free end products to meet market demand for a number of food based end products.
- Palm oil provides a vegetable based substitute for animal fats thus circumventing animal disease issues (e.g. BSE, FMD) and can provide food based end products for the vegetarian/non animal product sector.

Factors that may impact on palm oil supply include:

- Environmental sustainability – In recent years a number of organisations have accused the palm oil industry of environmental damage and negative social impacts. It is yet to be seen how these issues will impact on the sector.

### 2.2.2 Bio-Fuel Impact

EU rapeseed oil consumption as a bio-fuel feedstock was estimated to be 35% in 2002, to provide a biodiesel production in excess of 1 million tonnes.

The EU bio-fuels directive decision of 2003 set targets of a minimum share of 2% of fuels in the transport sector in 2005 increasing to 5.75% in 2010. EU member states are provided with latitude to implement the directive, which allows the reduction of excise duties on bio-fuels and choice in the form of tax relief that best fits their situation. It is forecast that if fully implemented there would be a need for 15-20 million tonnes bio-fuel in 2010 of which a proportion will be biodiesel.

The EU provides an example of a developing demand for fats and oils that may also be adopted in other countries in response to issues such as global warming and the Kyoto Protocol and is likely to have an impact on global fats and oil markets. The demand for animal fat and vegetable oil as feedstock for the production of bio-fuel will depend on support mechanisms adopted and the impact on the market is impossible to predict at this early stage.

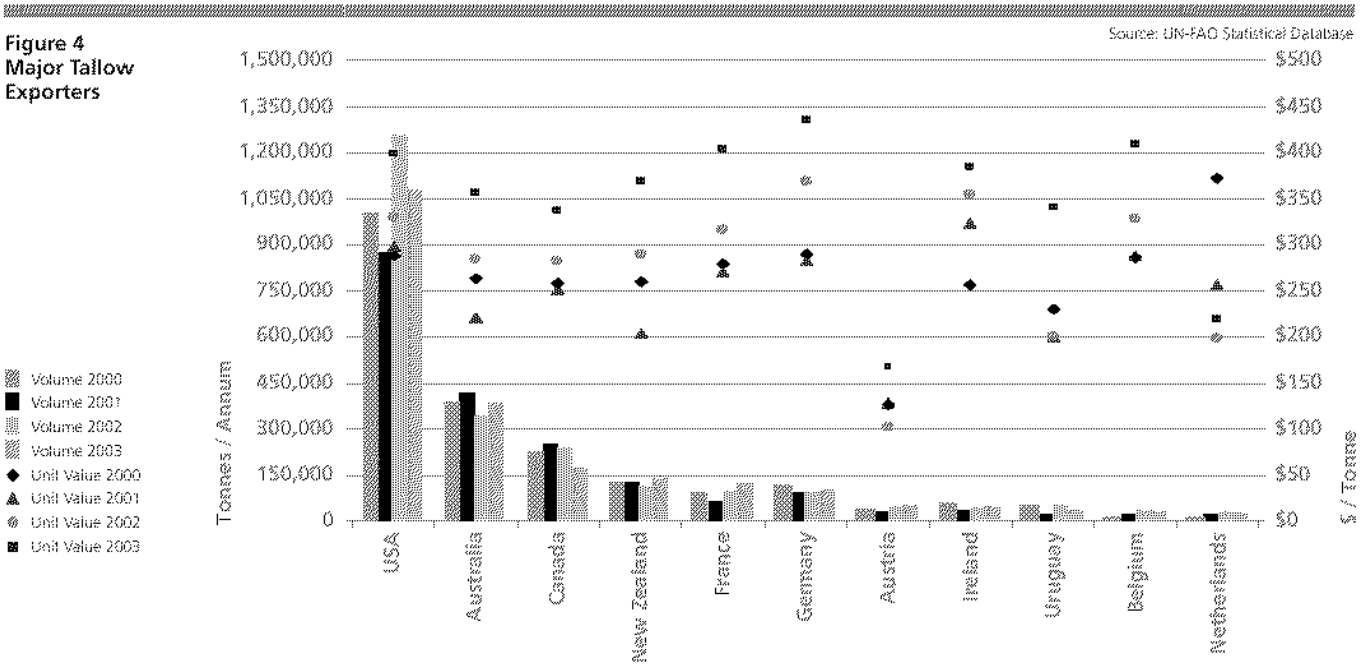
## 2.3 International Tallow Trade

### 2.3.1 International Trade

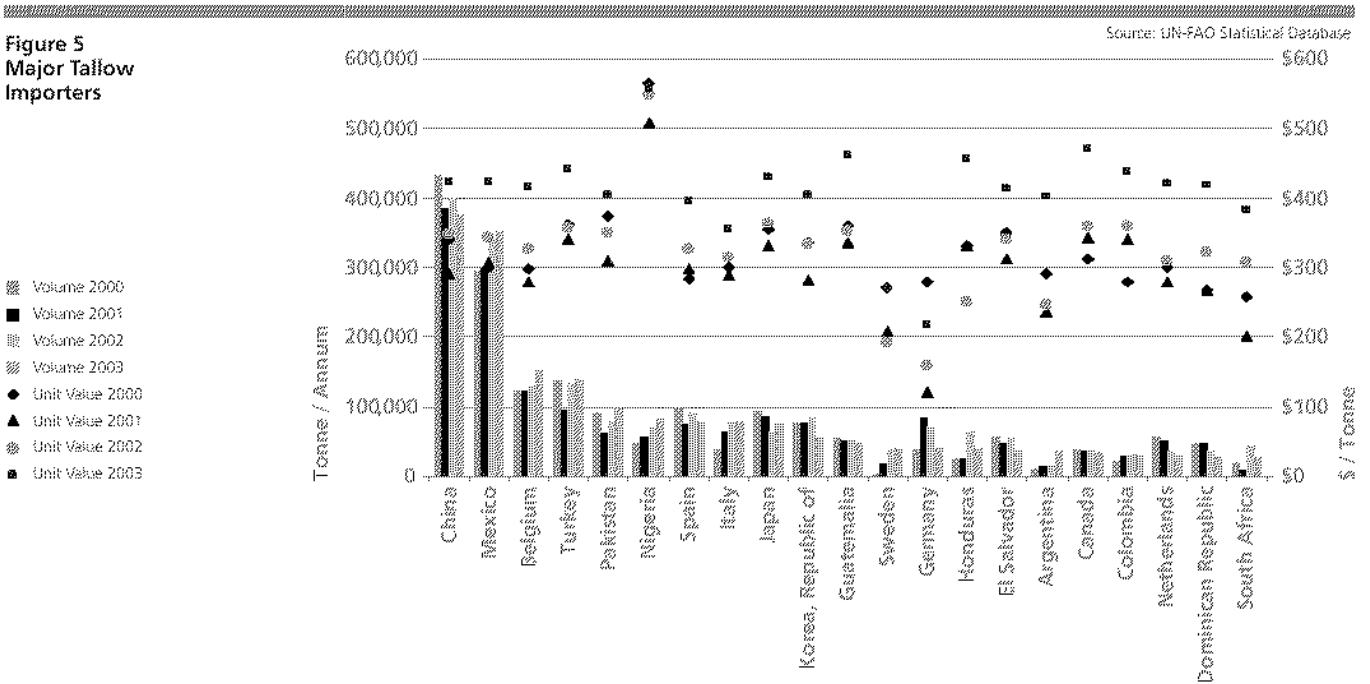
There are a limited number of countries that contribute significant volumes to global trade in tallow. The USA dominates the international trade followed by Australia, Canada and New Zealand (see

# Independent Review of the Feedstock Market

**Figure 4).** Australia and New Zealand combined contribute less than 50% of the volume contributed by the USA to global trade. Only 15 countries exported in excess of 10,000 tonnes in 2003. **Figure 4** also provides average export prices (\$US - FOB basis) for the internationally traded tallow. The data indicates that the USA receives a premium of around \$US50/tonne with respect to Australia and New Zealand. A significant portion of this premium is due to the influence of high volumes of fat based rendering raw material recovered from fat cattle finished on grain providing tallow with low FFA levels and good bleachability.



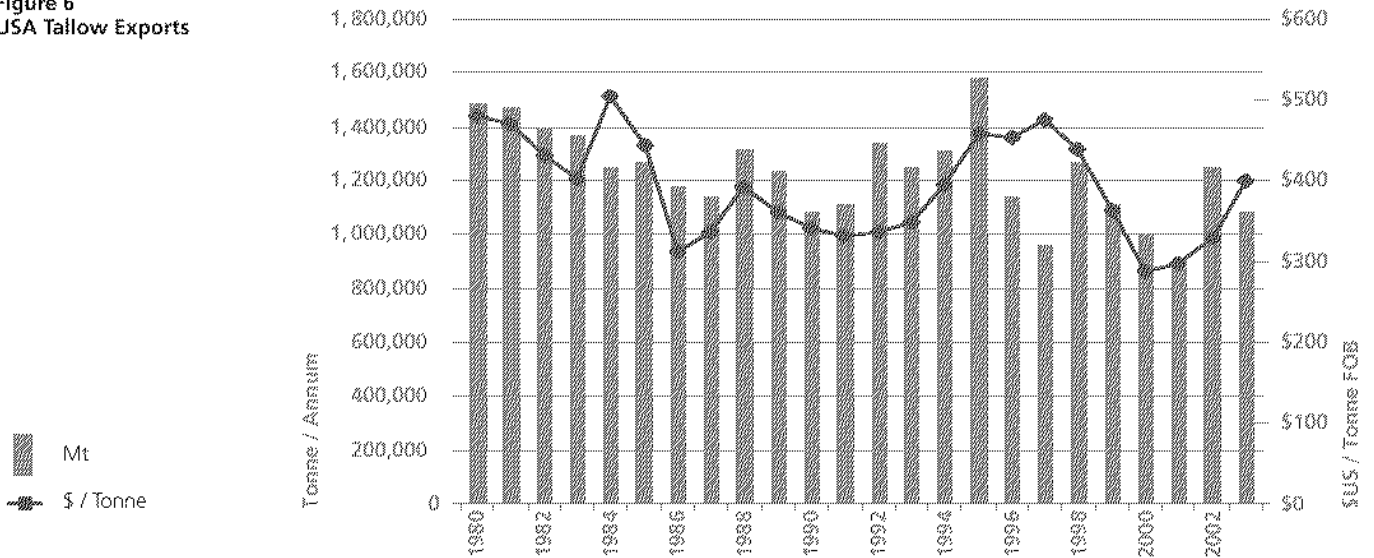
While the number of countries providing tallow into the global market is limited, the countries importing tallow are more diverse (see **Figure 5**). While China and Mexico dominate the import of tallow, some 30 countries imported in excess of 10,000 tonnes in 2003. **Figure 5** also provides unit values for imports (\$US - CIF basis).



2.3.2 United States of America

Figure 6  
USA Tallow Exports

Source: UN-FAO Statistical Database



The USA is the dominant international provider of tallow and provides as much as 50% of the globally traded tallow (see **Figure 4**). As such the USA provides the market lead for the product.

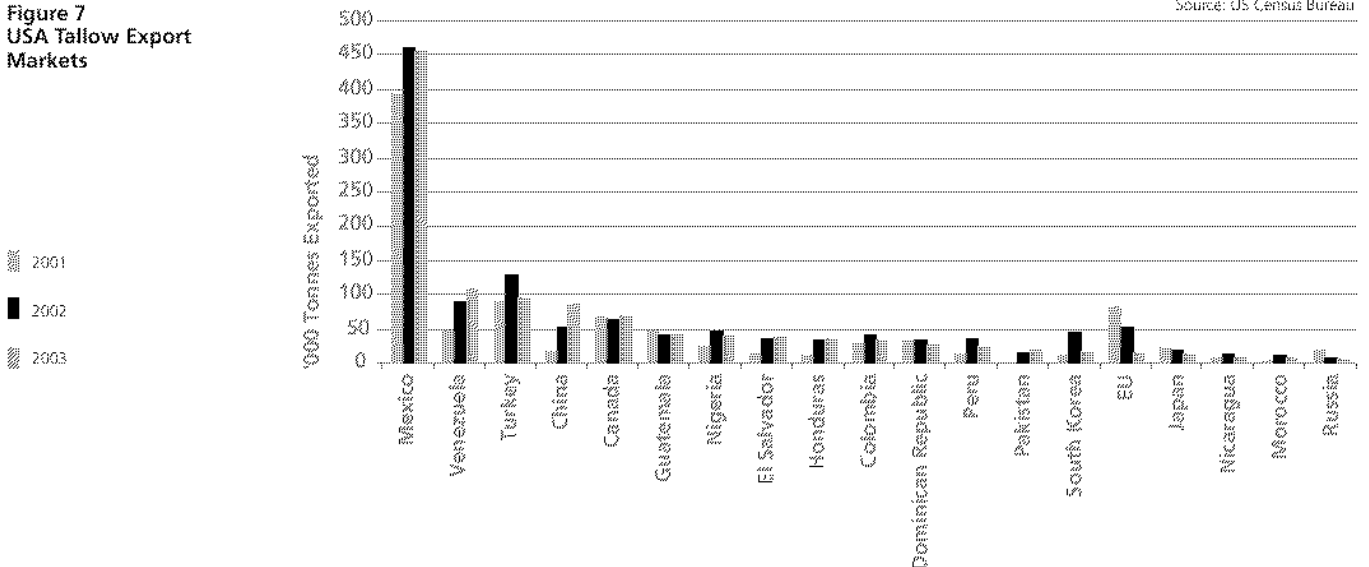
Since total red meat production has been stable at around 20 million tonnes/annum, the movements in export volume of tallow are likely due to changes in domestic US demand including the need for edible fat for inclusion with imported lean meat for further processing.

While US renderers have been active in attempting to expand export markets, **Figure 7** demonstrates that Mexico continues to play a dominating role taking around 40% of the tallow exported from the USA.

The data shows that there have been significant volume increases in several markets over the three years 2001-2003, including Venezuela, China, and Central America. The EU and Japan are markets that have significantly declined.

Figure 7  
USA Tallow Export  
Markets

Source: US Census Bureau

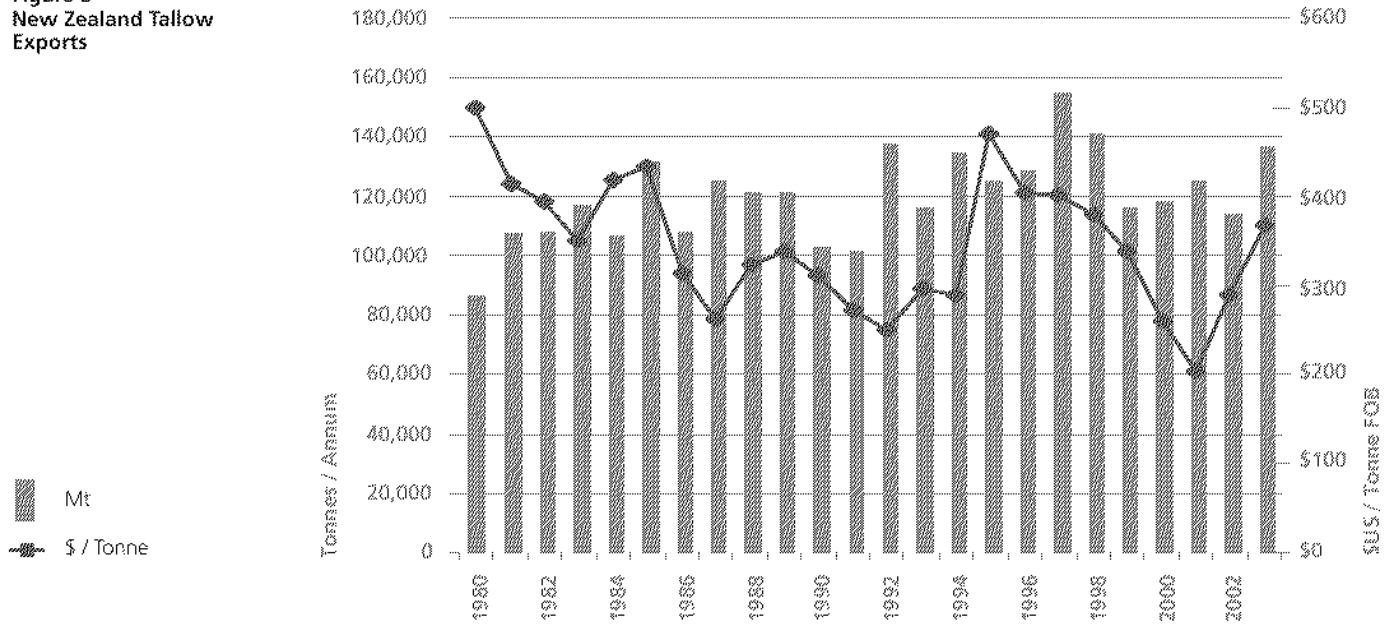


2.3.3 New Zealand

New Zealand is an important tallow exporter in relation to the Australian market due to it being the worlds fourth largest exporter (after the USA, Australia and Canada), and due to its geographic proximity. New Zealand tallow exports have varied between 100,000 and 140,000 tonnes/annum between 1981 and 2003 (see Figure 8).

Figure 8  
New Zealand Tallow Exports

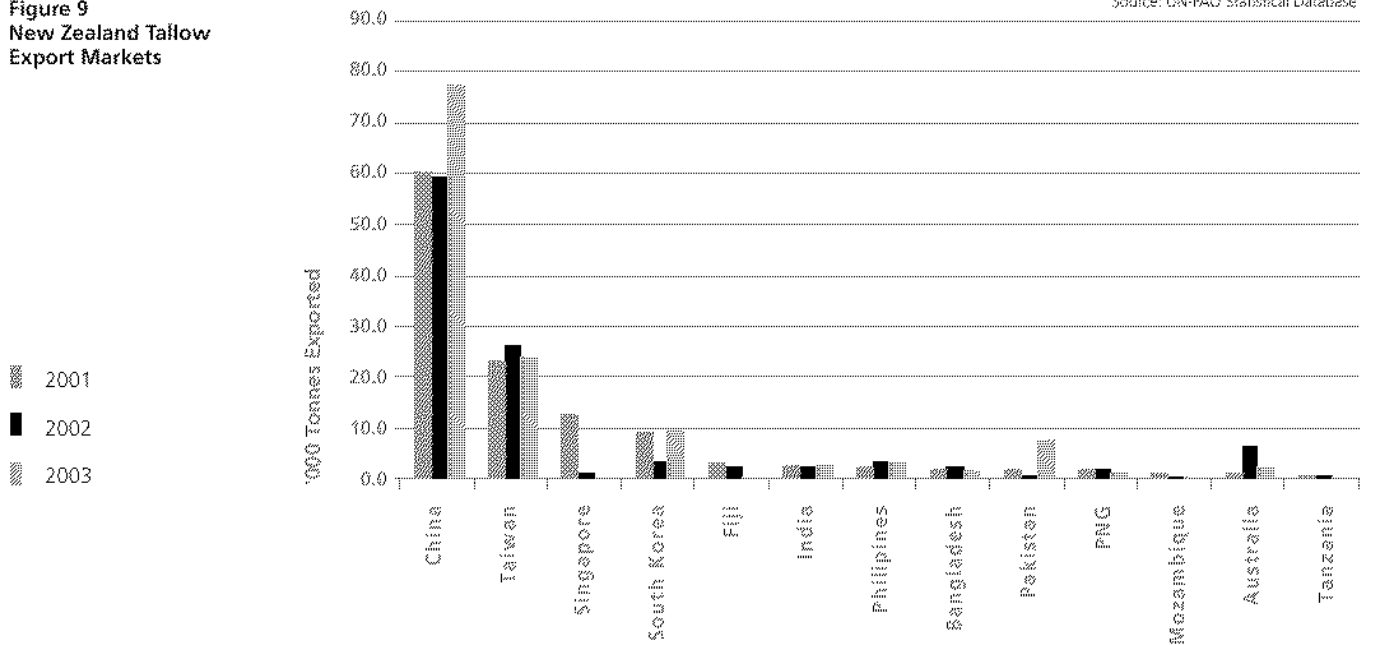
Source: UN-FAO Statistical Database



The New Zealand red meat sector is dominated by sheepmeat and the export of lean beef for the US market derived from lean dairy bulls and cows. Generally the quality of tallow is poorer from New Zealand than the US or Australia due to the larger proportion of slaughter material and sheepmeat product in the raw material. Some markets object to the odour associated with tallow derived from sheepmeat processing.

Figure 9  
New Zealand Tallow Export Markets

Source: UN-FAO Statistical Database



**Figure 9** shows that China and Taiwan dominate the export market for New Zealand tallow taking up to 75% of tallow exported. China and Taiwan both have price sensitive sectors capable of transforming lower cost tallow into acceptable end products.

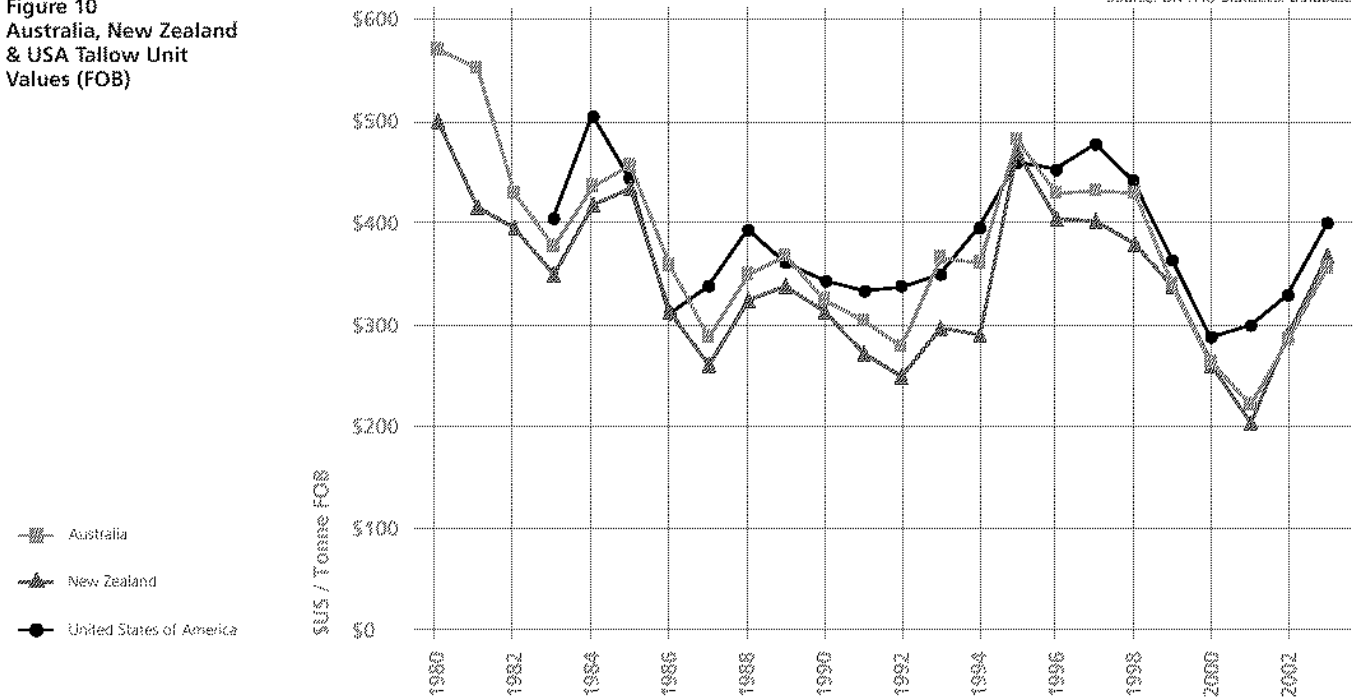
**2.3.4 Export Price Comparison**

In the preceding discussion reasons are provided for better quality tallow being produced in the USA with lower quality tallow produced in New Zealand. Australian tallow is in between the USA and New Zealand product since in some areas (e.g. Queensland) integrated beef plants processing heavy grain fed cattle are common, while in South Eastern Australia there is a significant proportion of domestic slaughter and sheep-meat processing operations.

While transport to market costs will impact, **Figure 10** provides an indication of the unit value differences for tallow exported from USA, Australia and New Zealand. On average over the period analysed, Australian tallow was \$US25/tonne discounted against US and NZ tallow discounted a further \$US25/tonne, however in recent years the average NZ tallow export unit value has been similar to the Australian unit value.

**Figure 10**  
Australia, New Zealand  
& USA Tallow Unit  
Values (FOB)

Source: UN-FAO Statistical Database



**2.4 Australian Tallow Production & Trade**

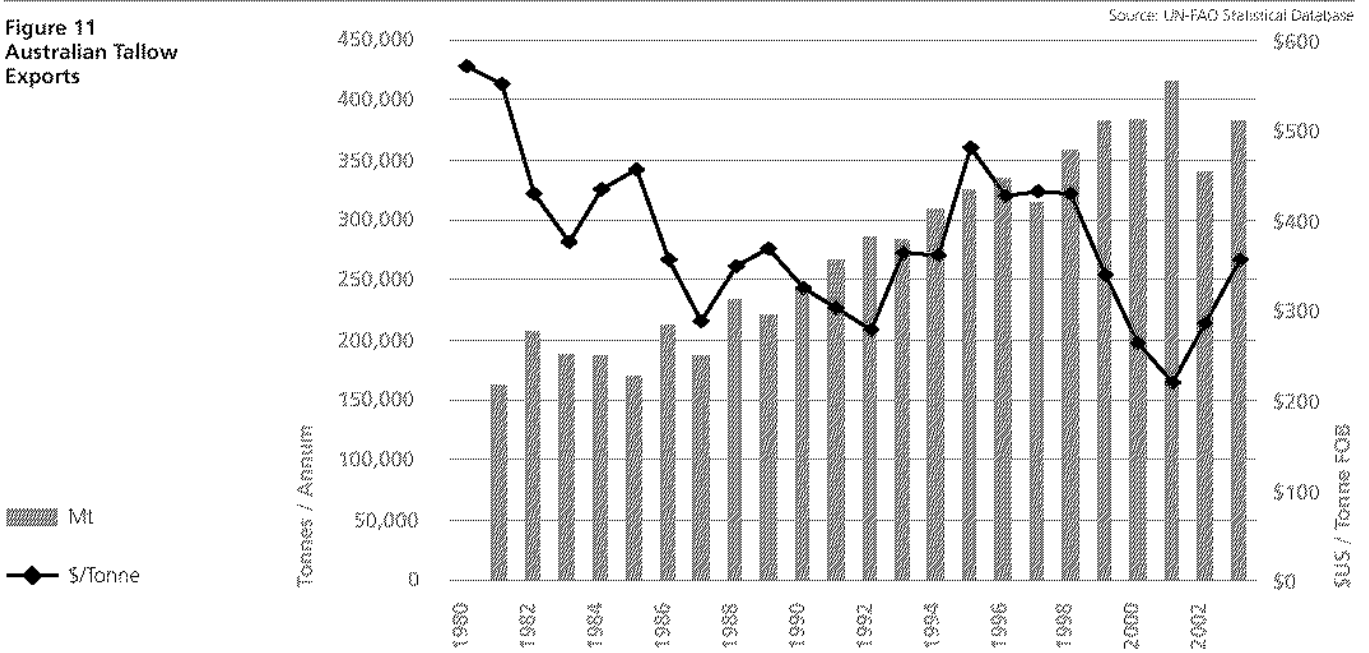
**2.4.1 Australian Tallow Exports**

**Figure 11** shows that Australian tallow exports have increased by over 100% from around 160,000 tonnes/annum in the early 1980's to 350,000-400,000 tonnes/annum since the mid 1990's.

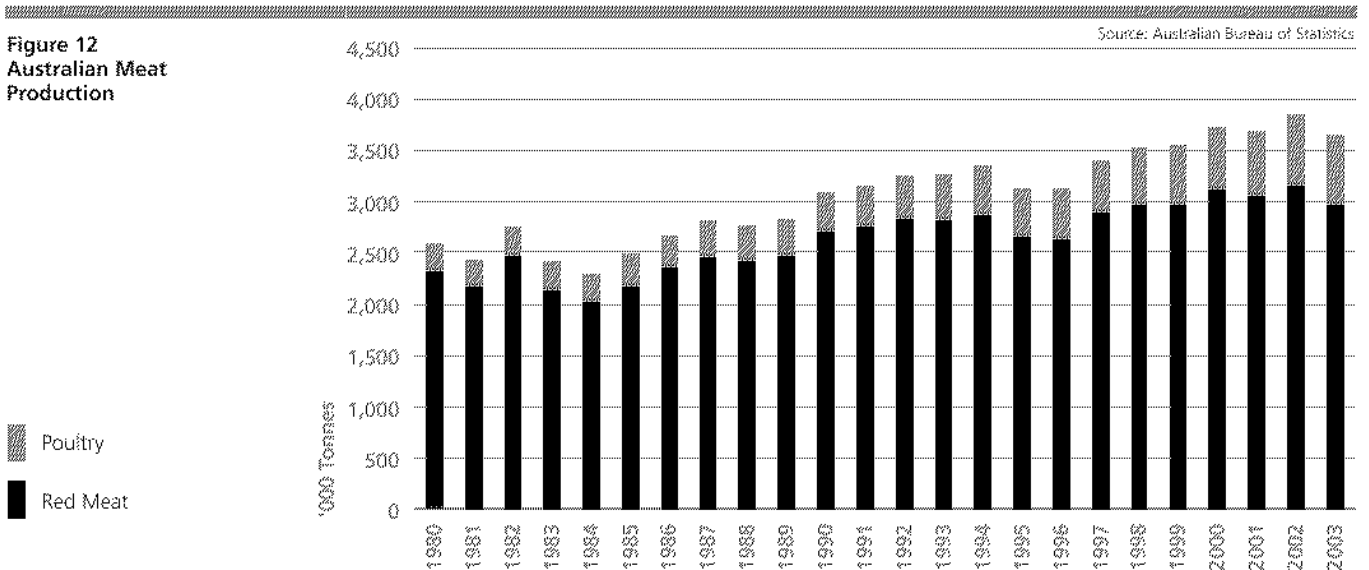
**Figure 12** shows that over the same period meat production only increased by some 40% from 2.5 million tonnes/annum in the early 1980's to 3.5 million tonnes/annum since the mid 1990's with much of this growth attributable to poultry production.

# Independent Review of the Feedstock Market

**Figure 11**  
Australian Tallow Exports



**Figure 12**  
Australian Meat Production



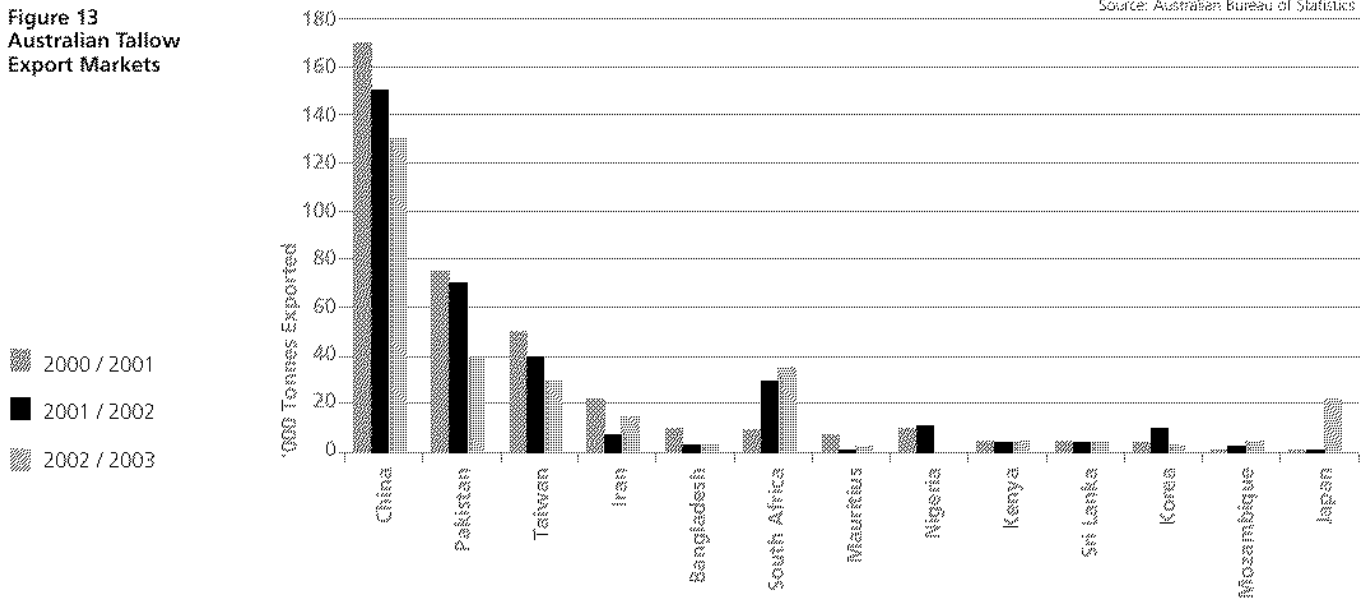
Increased tallow exports in relation to unchanged meat production levels are due to:

- In a market with stable domestic demand, tallow from any increase in meat production will be directed to export,
- Since late 1980's period there has been a significant growth in production of grain fed beef from which there was an increase in fat containing raw material for rendering.

The significant export tallow destinations over the 2000 to 2003 period are provided in Figure 13. The three largest markets in 2000/01 (China, Pakistan and Taiwan) have been declining, while volumes to South Africa and Japan have increased. China and Taiwan are significant consumers of palm oil which is a direct competitor to tallow for a variety of oleo chemical end uses.

**Figure 13**  
Australian Tallow  
Export Markets

Source: Australian Bureau of Statistics



**2.4.1.1 Exports by State**

Australia has over the last four years exported between 350,000 and 400,000 tonnes of tallow annually. Figure 14 provides data on tallow exports by state of shipping, and shows that the majority of tallow exported is shipped from Queensland due to a number of factors including:

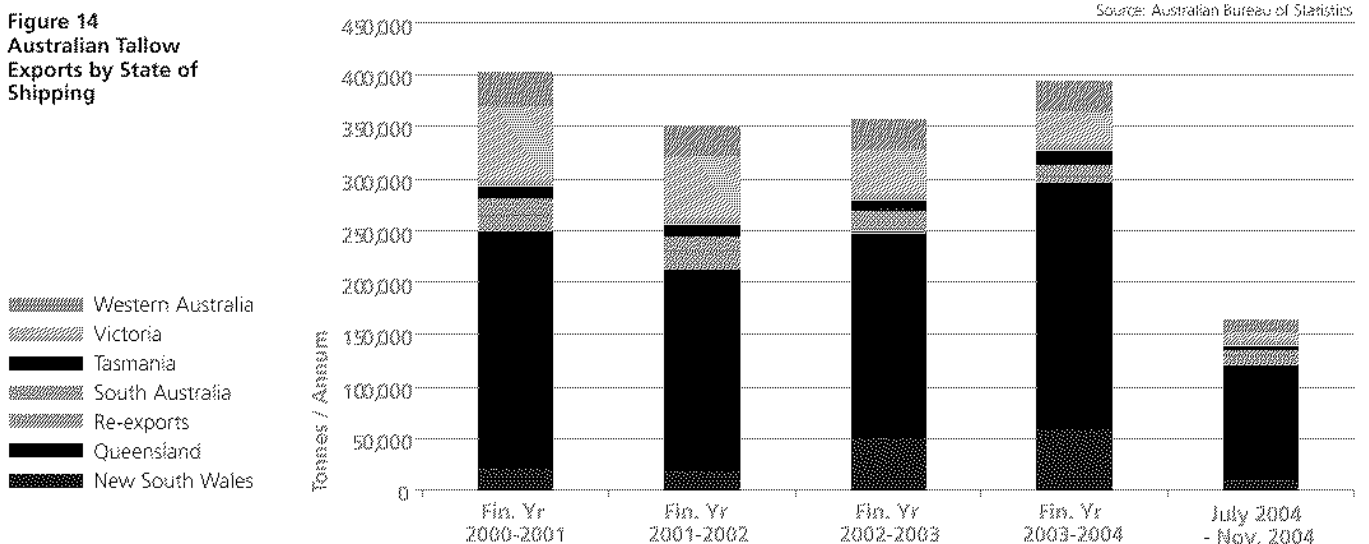
- Good tallow quality due to supply being sourced from integrated export registered beef operations many of which process grain fed cattle.
- Limited domestic demand in Queensland region.
- Proximity to main markets in Asia.

Smaller quantities are exported from the southern states due to larger domestic demand from the oleo chemical sector.

Australian Bureau of Statistics (ABS) export statistics indicate that some 10,000 to 20,000 tonnes/annum are shipped from South Australia and 25,000 to 33,000 tonnes/annum from Western Australia. It needs to be noted also that state of production may differ from the state of shipping and in particular some of the tallow shipped from Victoria may have been sourced from South Australia. Shipments from Victoria have fallen from 77,000 tonnes in 2000-2001 to 38,000 tonnes in 2003-2004.

**Figure 14**  
Australian Tallow  
Exports by State of  
Shipping

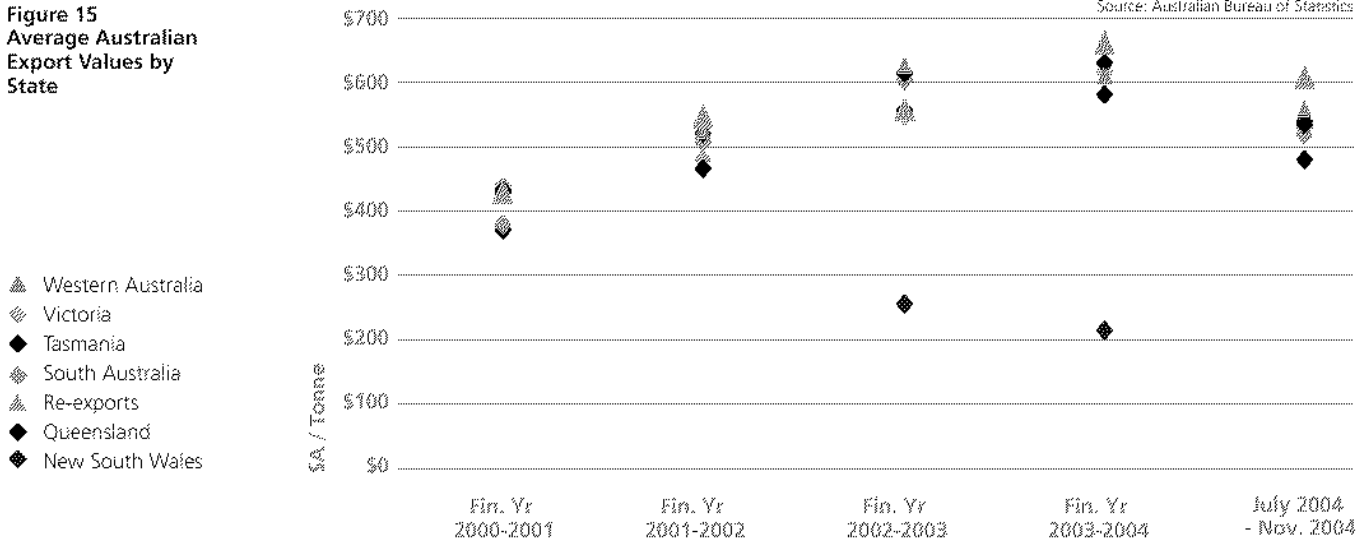
Source: Australian Bureau of Statistics



# Independent Review of the Feedstock Market

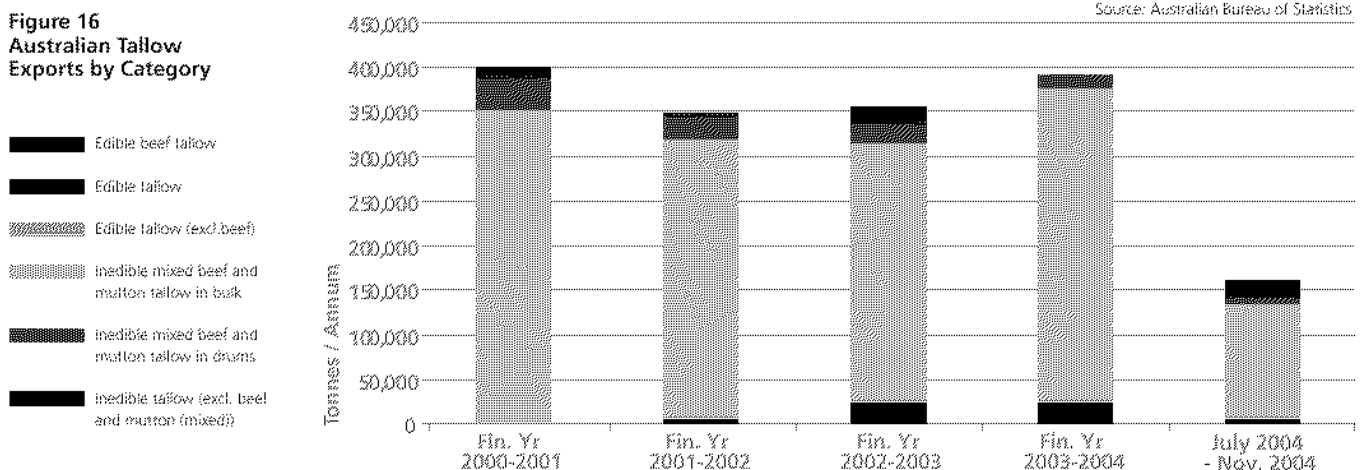
The ABS data for volume and value of tallow exported has been analysed to provide indicative average unit values at a state level. This data is presented in **Figure 15** and indicates that there is a value difference of around \$100/tonne between states (2 NSW data points have been ignored as they are outside reasonable expectations). This variation will be due to differences in tallow quality related to FFA, MIU, bleachability, odour, etc. The unit values for South Australia and Western Australia are generally mid-range.

**Figure 15**  
Average Australian Export Values by State



**Figure 16** indicates the tallow exported by category. Bulk inedible tallow makes up in excess of 80% of the product exported.

**Figure 16**  
Australian Tallow Exports by Category



## 2.4.2 Australian Production Estimates

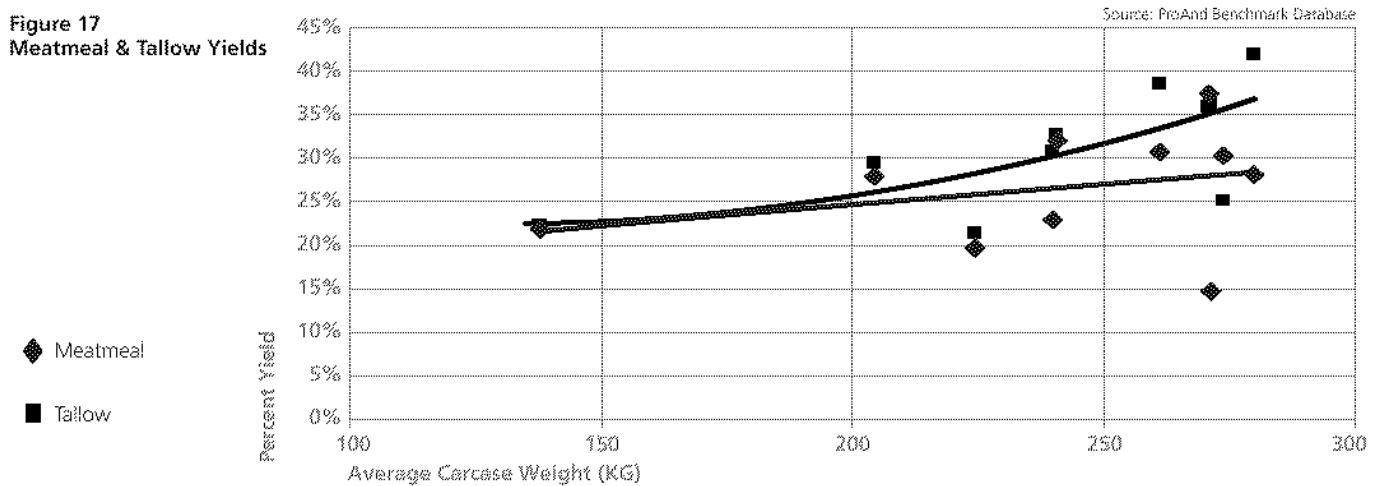
In order to review the methodology used by ARF for feedstock supply there is a need to understand tallow production at an Australian state level.

The ABS does not maintain records of tallow production, and as a result estimates have been made of the amount of tallow produced based on meat production statistics.

PAA has over a number of years conducted Benchmark analyses of meat processing plants and has established a database of information. This database has been analysed to establish meatmeal and tallow yields for integrated beef processing operations. **Figure 17** shows how the tallow yield increases with increasing carcass weights. The average carcass weight (beef & veal) is in the order of 225kg, and not all boning room fat will be recovered particularly from carcasses directed to parts of the domestic retail sector. A tallow yield of 22% of the beef carcass weight has been assumed for the calculation to estimate the volume of beef tallow produced.

The weight of tallow produced from sheep-meat processing operations is estimated to be approximately 12.3% of the carcass weight produced. A factor of 12% has therefore been used in the calculation to estimate the volume of tallow produced from mutton, lamb, and pig-meat. A tallow yield of 4% has been assumed for poultry. **Figure 18** provides a summary of the data used to estimate Australian tallow production.

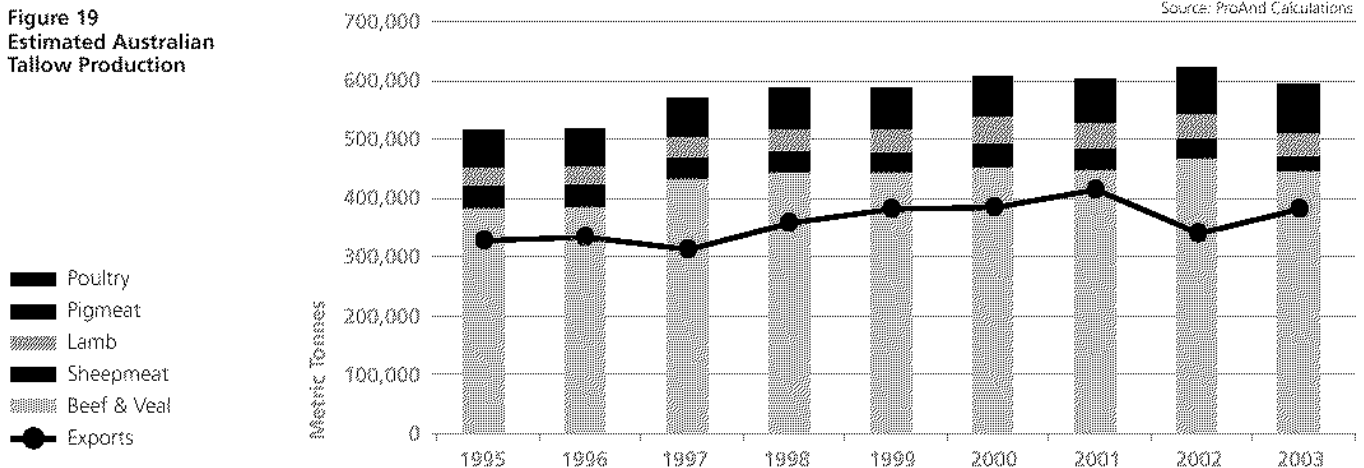
**Figure 17**  
Meatmeal & Tallow Yields



**Figure 18**  
Data Used to Calculate  
Tallow Production

	AVG Carcass Weight Kg/Head	Average Tallow Yield Kg/Head	Carcass Weight %
Beef & Veal	225	50	22%
Mutton	21	2.5	12%
Lamb	19	2.3	12%
Pigmeat	72	8.8	12%
Poultry	1.5	0.065	4%

**Figure 19**  
Estimated Australian  
Tallow Production



**Figure 19** provides a graphical representation of estimated Australian tallow production based on these yields and ABS meat production data. The volume of exports has also been included for comparison. The estimated production indicates that domestic tallow demand is in the order of 175,000-225,000 tonnes/annum (excluding poultry oil).

An independent survey based on 2000/2001 production, provided an overview of the size and value of the Australian rendering industry and indicated:

- Australian tallow production of 567,200 tonnes with a further 25,700 tonnes of poultry oil
- Tallow production by State to be:

Queensland	228,000 tonnes
Victoria	107,000 tonnes
New South Wales	158,000 tonnes
South Australia	44,000 tonnes
Western Australia	38,000 tonnes
Tasmania	14,000 tonnes

These survey results are consistent with the projections calculated in this document.

The survey also indicated that the breakup of domestic consumption in 2000/2001 was as provided in **Figure 21**.

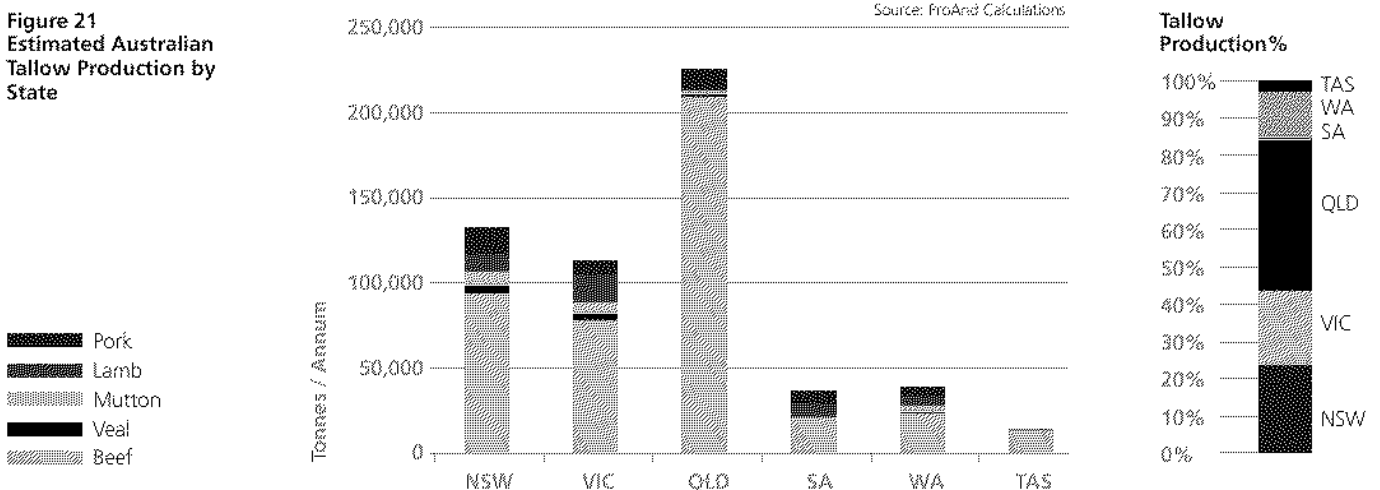
**Figure 20 – 2000/2001 Domestic Consumption Break-up (Australian Renderers Association Survey)**

Australian Domestic Disappearance	Tonnes – 2000/2001
Edible Usage	66,000
Intensive Animal Production	5,000
Soap and Oleo Chemical Sector	50,000
Pet-food	30,000
Other	26,200
<b>TOTAL</b>	<b>177,200</b>

The production of tallow by State for the 2003 year has been calculated based on the same yield factors used in the above calculations and ABS meat production statistics, and the results are presented in **Figure 21**.

This data is reasonably consistent with the published Australian Renderers Association survey results and confirms that Queensland produces in the order of 40% of Australian tallow, New South Wales – 24%, Victoria – 20%, South Australia and Western Australia – 6-7%, and Tasmania – 4%.

**Figure 21**  
Estimated Australian  
Tallow Production by  
State



### 2.4.3 South Australia

Production estimates for tallow in South Australia for the 2003 year as calculated using the assumptions in section 2.4.2 indicate a production volume in the order of 36,000 tonnes/annum.

A list of significant South Australian meat processors is provided in Figure 22. Apart from Teys Bros, all other significant SA meat processors process small-stock.

The quality of tallow from raw material from multi-species processors may be of poorer quality than pure beef tallow yielded from an integrated slaughter/fabrication operation.

**Figure 22 – Significant South Australian Meat Processors**

Company	Status	Location	State	Species
Teys Bros (Holdings) Pty Ltd Naracoorte	Export	Naracoorte	SA	C
T&R Pastoral Pty Ltd	Export	Murray Bridge	SA	CS
Tatiara Meat Company Pty Ltd	Export	Bordertown	SA	S
Conroys Port Pirie Abattoirs	Export	Port Pirie	SA	SG
Primo Australia	Export	Port Wakefield	SA	P
Big River Pork	Export	Murray Bridge	SA	P
Lobethal Abattoir	Domestic	Lobethal	SA	CS
Strath Meats Pty Ltd	Domestic	Strathalbyn	SA	CSG

Species: C-Cattle, S-Sheep & Lamb, G-Goats, P-Pigs

Source: ProAnd Database

It would therefore be expected that tallow from SA meat processors other than Teys Bros would be available at a discount to the <1%FFA beef tallow market.

Master Butchers Limited operate a significant independent rendering plant in South Australia that sources raw material from slaughter and boning operations including retail butchers.

### 2.4.4 Western Australia

Production estimates for tallow in Western Australia for the 2003 year as calculated using the assumptions in section 2.4.2 indicate a production volume in the order of 39,000 tonnes/annum.

A list of significant WA meat processors is provided in Figure 23.

**Figure 23 – Significant Western Australian Meat Processors**

Company	Status	Location	State	Species
E G Green & Sons Pty Ltd	Export	Harvey	WA	C
Witan Holdings Pty Ltd	Export	Gingin	WA	C
V & V Walsh	Export	Bunbury	WA	CS
Elderstone Nominees	Export	Narrogin	WA	CSG
Western Australian Meat Marketing Corp.	Export	Katanning	WA	S
Fletcher International Exports	Export	Albany	WA	S
Beaufort River Meats (W/salers) Pty Ltd	Export	Kojonup	WA	SG
Geraldton Meat Exports Pty Ltd	Export	Geraldton	WA	SG
Watson Foods	Export	Spearwood	WA	P
Derby Industries	Export	Woorooloo	WA	P
Goodchild Abattoir	Domestic	Australind	WA	CS
Hagan Bros Abattoir	Domestic	Geraldton	WA	CS
K Grieves & R Read & Co	Domestic	Esperance	WA	CS
Dardanup Butchering Co	Domestic	Bunbury	WA	CSG
Eastern Districts Abattoir	Domestic	Merredin	WA	CSG
Cowaramup Abattoir	Domestic	Cowaramup	WA	SG

Species: C-Cattle, S-Sheep & Lamb, G-Goats, P-Pigs - Source:- ProAnd Database

## Independent Review of the Feedstock Market

A significant proportion of the tallow is produced by independent renderers in WA including Fertal Holdings Pty Ltd and Talloman (Division of Derby Industries Pty Ltd).

EG Green processes in the range of 35% to 40% of all beef and the two major sheep processors (Fletcher International & WAMMC) handle greater than 70% of the sheep and lamb processed in WA.

It would be expected that EG Green would produce the best quality tallow in WA from the point of view of FFA, bleachability, MIU and odour.

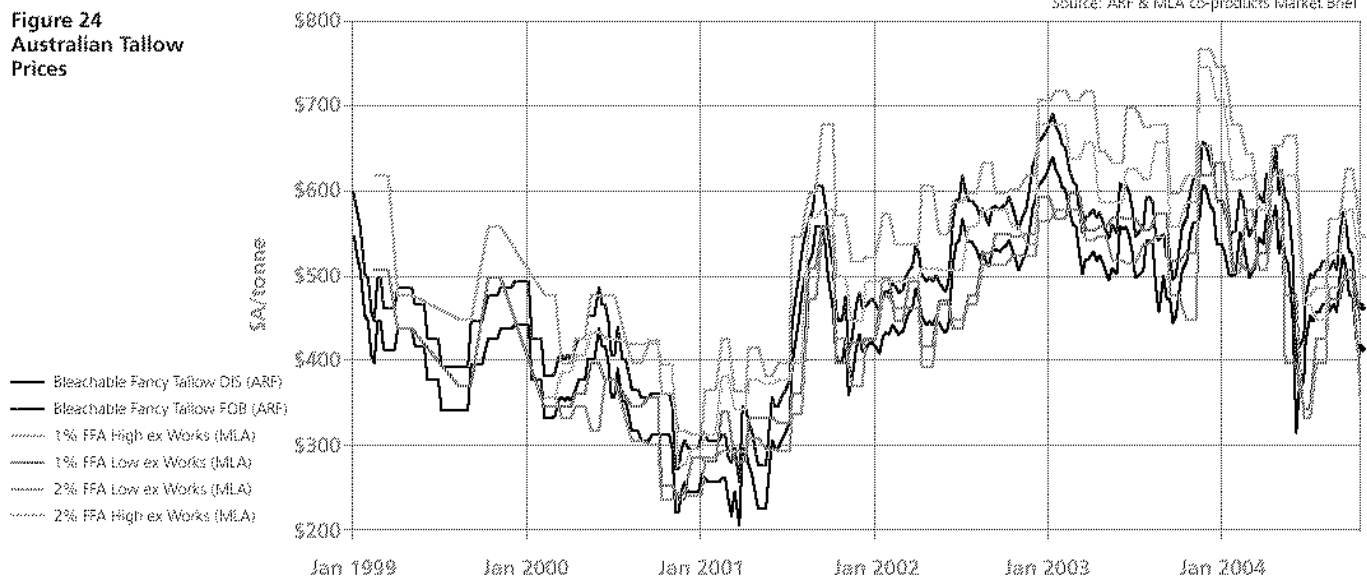
### 2.5 Fat & Oil Price Trends

Figure 1 provides historical fat and oil price trends based on prices provided by ARF and clearly demonstrates that tallow is a component of the international fats and oil market and its value moves in line with stearin, olein, palm oil, coconut oil, soybean oil, sunflower, etc. Tallow is at the low value end of the prices and is internationally traded in small volume compared to other oils (see Figure 3). Tallow is in general not traded as an edible product in its raw form. This status, in association with the lower volumes traded, means that tallow is not a price maker but is a price follower in the international fats and oils sector. The largest internationally traded commodity in this sector is palm oil (see Figure 3) which is a direct competitor to tallow for a number of end uses. The value of palm oil is influenced by supply/demand dynamics and import/export tariff regimes.

Figure 24 shows ARF price data compared with a Meat & Livestock Australia (MLA) time series for ex-works prices for tallow. The ARF BFT DIS (ARF Bleachable Fancy Tallow Delivered In Store) price and the MLA data follow the same trends, with the low price series for both 1% & 2% FFA tallow in close agreement with the ARF price series. The MLA ex works data high price series is however up to \$100 higher than the ARF BFT DIS values. These high/low price differences represent differences in the relative location of supply and demand and the consequent impact of transport costs.

**Figure 24**  
Australian Tallow Prices

Source: ARF & MLA co-products Market Brief



The ARF BFT FOB price is significantly higher than the ARF BFT DIS price indicating handling, storage and ship loading costs in the order of \$50/tonne. The ARF BFT FOB value is similar to the ex-works 2% FFA price reported by MLA. The ARF BFT series represents tallow of up to 5% FFA and as a consequence the price will be lower than 2% FFA tallow. The ARF specification for feedstock includes all tallow less than 10% FFA that also meets the specification.

### 3. Feedstock Supply Arrangements

PAA has been requested to review the ARF feedstock supply arrangements contracted with GS. While comment is made in the following paragraphs on the structure of the agreement, no comment is made on the legal or contractual aspects as these are outside the brief for this expert report.

#### 3.1 Gardner Smith – Pacific Terminals

GS is a merchandising, trading and logistics company specialising in tallow, vegetable oils, liquid feeds and protein meals and is Australia's largest non producing tallow exporter.

GS has offices in Africa, Australia, China, New Zealand and Singapore.  
Included within the GS Group are:

- Pacific Terminals - A bulk liquids storage operation.
- Riverland Oilseed Processors - A canola seed crushing operation supplying oil and meal to both the domestic and international markets.
- Recycled Cooking Oils - Collects and recycles cooking oils and fats from fast food outlets, and other similar heavy users, for resale into industrial and animal feed sectors.

Pacific Terminals (Australia) Pty Ltd is owned by Gardner Smith (Holdings) Pty Ltd. Pacific Terminals operates bulk liquid terminals at:

##### Australia

Fremantle, Perth  
Largs Bay, Adelaide  
Devonport, Tasmania  
Bell Bay, Tasmania  
Coodie Island, Melbourne  
North Laverton, Melbourne  
Pinkenba, Brisbane

##### New Zealand

Auckland  
Napier  
Timaru  
Bluff  
New Plymouth

##### China

Shanghai

#### 3.2 Gardner Smith Services

Under the feedstock supply agreement sighted by PAA, GS will obtain feedstock for ARF and deliver the feedstock to the GS supply point, which must be within 5km's of the biodiesel production site at 166 Elders Road, Largs Bay, South Australia. ARF is responsible for the transfer of feedstock from the supply point to the production site, which ARF has informed PAA that it will do by pipeline.

The Pacific Terminal bulk storage site in SA is located in 136 - 144 Eider Road, Largs Bay, Adelaide, where there is bulk liquid storage for 12,000m<sup>3</sup> in 30 tanks varying from 50-1300m<sup>3</sup> capacity.

The sourcing and delivery of the feedstock by GS is to be conducted on a "cost plus" basis where "all third party costs, charges, liabilities and expenses (including, without limitation, the intermediary costs) incurred by GS in obtaining Domestic Feedstock and delivering it to the supply point plus an amount equal to a percentage of those costs, charges, liabilities and expenses".

Since the feedstock will be delivered from the supply point to the Biodiesel production plant via a pipeline, and that the GS supply point is the storage site at 136-144 Elders Road, then the cost to ARF will be the SA delivered-in store (DIS) tallow price plus any storage and handling costs, plus the transaction fee.

# Independent Review of the Feedstock Market

The agreement for supply in Western Australia has not been sighted by PAA however ARF has advised that the arrangements will be similar whereby feedstock is delivered and held in a storage tank and pumped via a pipeline from storage in Bunbury to the Picton biodiesel plant.

It is apparent from **Figure 25** that the Melbourne Bleachable Fancy Tallow DIS value supplied by ARF to PAA is generally under the ex Works tallow prices (1% and 2% FFA) reported to MLA under a regular co-products monitoring program. It would be prudent for ARF to gain access to the MLA price series to obtain a check that the agreement with GS continues to provide competitively priced tallow.

It is apparent that GS has in the past sourced tallow at a competitive rate and understands the tallow production sector sufficiently to source feedstock of appropriate quality for ARF. The GS transaction fee which is commercial in confidence is considered an appropriate fee to ensure access to tallow feedstock through the largest tallow trader in Australia. The fee could be seen to encourage delivery of higher priced feedstock, this further supports monitoring feedstock price against an independent price series.

#### 4. Adequacy of ARF Methodology

All prices quoted in this section are exclusive of GST.

##### 4.1 Tallow Feedstock Purchase Price

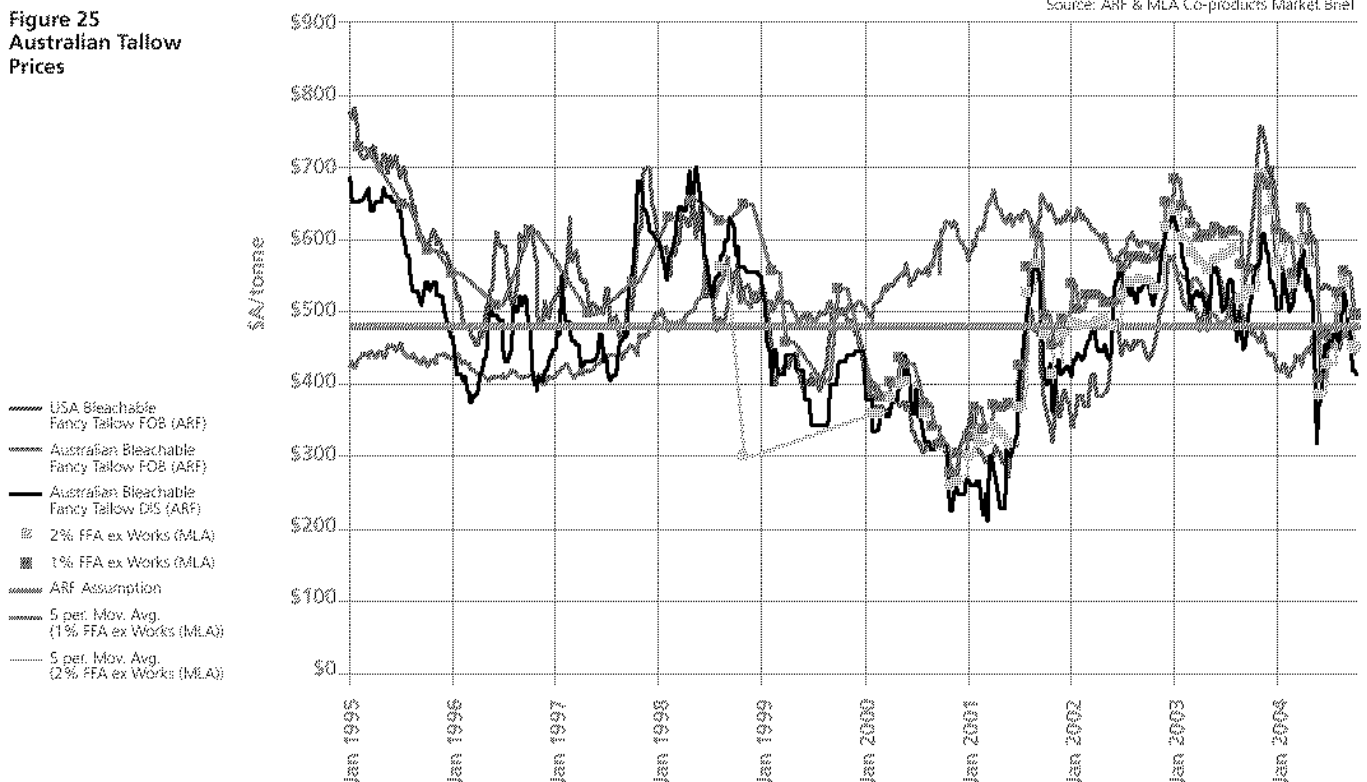
ARF has based a feedstock purchase price for the Adelaide plant on a ten year average of the "Bleachable Fancy Tallow DIS" price series supplied by ARF. The ten year average price from 1994 to 2004 on the basis of the ARF series is \$481/tonne.

The ten year average price is indicated in **Figure 25** alongside several alternative tallow price series. It can be seen that the \$481/tonne adequately represents an average price over the period, however it also needs to be recognised that during the 2003 year the price for 2%FFA tallow based on the MLA ex-works series averaged \$4589/tonne. On the positive side average tallow price for 2%FFA tallow based on the MLA ex-works series during the period June 2000 to June 2001 was \$4324/tonne.

Due to the volatility of fats and oil prices, due to factors discussed in section 5.1, it is reasonable to expect that similar tallow values could be seen in the future.

**Figure 25**  
Australian Tallow Prices

Source: ARF & MLA Co-products Market Brief



It is assumed in the ARF calculations that:

- The feedstock purchase price for tallow in SA is the same as the "Bleachable Fancy Tallow DIS" price series supplied by ARF.
- The feedstock purchase price for tallow in WA is discounted against the "Bleachable Fancy Tallow DIS" price series supplied by ARF by \$A20/tonne. WA tallow prices are generally discounted due to the volumes available and the distance to market and a discount value of \$A20/tonne is considered to be reasonable, particularly if lower grade/mixed species tallow is sourced.
- The feedstock purchase price for New Zealand tallow is discounted against the "Bleachable Fancy Tallow DIS" price series supplied by ARF by \$A50/tonne. Figure 10 shows a discount price for NZ tallow against Australian tallow varying between \$A0 and \$A100/tonne, averaging over the last 20 years at \$A35/tonne. In the last five years however this discount has fallen to as low as \$A2/tonne.

## 4.2 Feedstock Quality

Feedstock quality acceptable to ARF is established in the agreement with GS to be:

- Maximum FFA (Free Fatty Acid) of 10%,
- Maximum MIU (Moisture/Insolubles/Unsaponifiables) of 2%, and
- Maximum moisture of 0.5%.

Bleachable Tallow is generally commercially traded at less than 5% FFA and less than 1.5% MIU. This quality tallow would not require any pre-treatment by GS to meet the ARF feedstock quality requirements. Other tallow qualities that are commercially traded include:

- Unbleachable Tallow
- Refined Yellow Grease
- Refined Cooking Oil
- Medium Gut Tallow
- Low Gut Tallow

These tallow qualities will likely need pre-treatment to meet the ARF feedstock quality criteria. These tallows are marketed at significant discount to Bleachable Fancy Tallow, and will be attractive as feedstock for ARF only when the lower value tallow plus the pre-treatment cost are less than the ruling value of Bleachable Fancy Tallow.

It can therefore be concluded that no pre-treatment of feedstock will be required for that derived from Bleachable Fancy Tallow, and therefore the cost incurred by GS will principally be for storage and handling.

## 4.3 Feedstock Quantities

### 4.3.1 Adelaide Plant

The calculations used by ARF assume that the Adelaide plant will be supplied with 15,000 tonnes/annum of tallow from South Australia and 25,000 tonnes from Victoria. These volumes represent in the order of 40% of the estimated South Australian production and 22% of the Victorian production.

ARF will be preferably accessing lower quality tallow, and 40% of South Australian production is a substantial market share. It would be preferable to target in the order of 25-30% of South Australian production (ie 10,000 tonnes/annum).

It is likely that ARF will be competing for lower grade tallow from Victoria and South Australia with Symex (see comments section 5.1).

### 4.3.2 Picton Plant

The calculations used by ARF assume that the Picton plant will be supplied with 20,000 tonnes/annum of tallow from Western Australia and 20,000 tonnes from New Zealand. These volumes represent in the order of 50% of the estimated Western Australian production and 16% of the New Zealand tallow exports.

ARF will be preferably accessing lower quality tallow, and 50% of West Australian production is a substantial market share. It would be preferable to target in the order of 30% of West Australian production (ie 12,500 tonnes/annum).

Competition for lower grade tallow in Western Australia is generally weak and in periods of low tallow prices it is not unusual for Western Australian renderers to direct burn tallow in their boilers.

**4.4 Transport Costs**

The vast majority of tallow used in Australia is direct delivered in bulk tanker from the renderer to the end user or export facility. It would be expected that ARF supplies would be similarly sourced for tallow produced within the state of location of the biodiesel plant.

It is likely that transport of tallow to the ARF biodiesel plants could be achieved at an advantage to standard tallow transport operations as there is likely to be less of a need to avoid some levels of contamination. It may be possible for instance to achieve lower transport costs by using trucks delivering a variety of petroleum products to back load tallow. Any advantage that accrues from this potential advantage will need to be addressed via GS due to the Feedstock Supply Agreement.

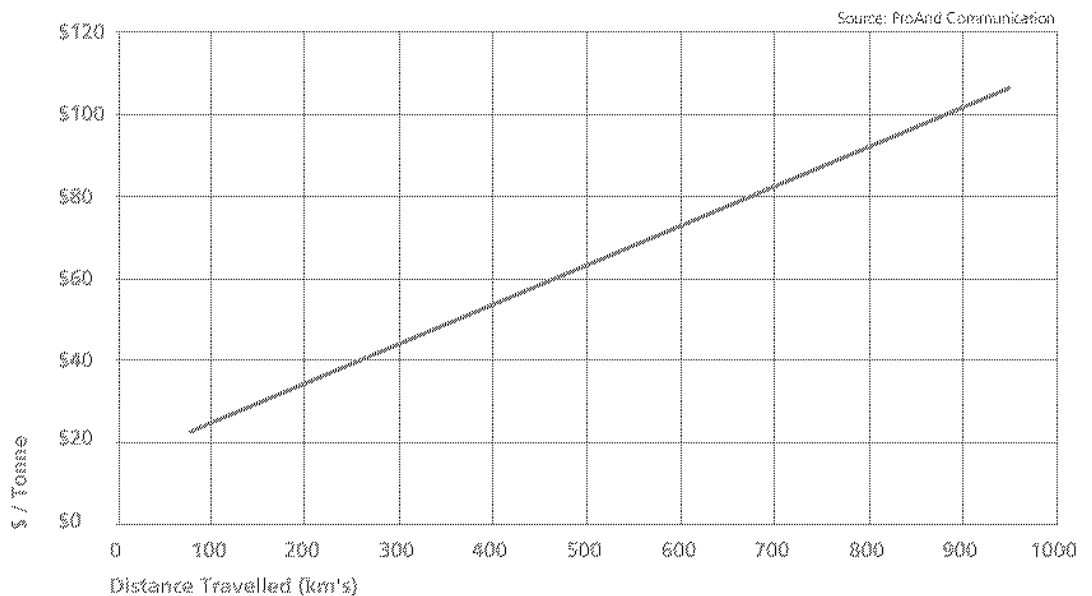
Indicative road transport costs for bulk tallow are provided in **Figure 26**. These \$/tonne costs have been used to estimate intra state transport costs.

Assuming that 30% of tallow is provided from each of Murray Bridge and Adelaide and 25% from each of Port Pirie and Keith then an average transport cost of \$23/tonne is calculated. It has been assumed that for local delivery a Double B configuration can be loaded, travel and unloaded in 2 hours or less at a consequent cost of around \$5.50/tonne.

Similarly, assuming that 25% of tallow is provided from each of Perth, Katanning, Albany and Bunbury areas then an average transport cost of \$33/tonne is calculated. Transport costs for a Double B configuration from Perth to Bunbury is also estimated to be around \$33/tonne.

Transport costs are of the same order of magnitude as the GS transaction fee and savings through use of a wider range of back-loading options would be advantageous.

**Figure 26**  
Indicative Road  
Transport Costs



## 4.5 On-Costs

### 4.5.1 Adelaide Plant

#### 4.5.1.1 South Australia Intra-State

The ARF methodology allows transport costs of \$2/tonne, and treatment & storage costs at the Adelaide site of \$11.25/tonne for a total transport, treatment and storage cost of \$13.25/tonne.

ARF have confirmed that the Delivered-In-Store (DIS) price series include all costs incurred up to delivery to the storage site but does not include handling at the storage site.

Delivery costs will be minimal as the feedstock will be delivered to ARF through a pipeline owned and operated by ARF.

On this basis a treatment, storage and delivery cost of \$13.25/tonne is considered reasonable.

#### 4.5.1.2 Ex Victoria

The ARF methodology allows transport costs (shipping from Melbourne) of \$40/tonne, handling, treatment & storage at the GS Adelaide facility of \$12/tonne, and Flinders Port related costs of \$2/tonne amounting to a total transport, storage and treatment cost of \$54/tonne.

Charges for receipt and delivery of feedstock into and out of the GS Melbourne facility are likely to be incurred for a portion of the feedstock sourced in Victoria and it is considered that a cost of \$10/tonne be allowed for this product. However it could also be assumed that a proportion of Victorian tallow will be transported direct to Adelaide without passing through the Melbourne terminal, and product will only be double handled if combined handling and transport costs are competitive with direct road transport to Adelaide.

ProAnd has been able to establish a pier to pier shipping cost for bulk liquid from Melbourne to Adelaide of \$35/tonne (but this will be impacted by availability of Australian flagged vessels). By comparison an indicative road transport cost is in the order of \$55-95/tonne from Melbourne to Adelaide. It is therefore considered reasonable to assume an overall average transport cost of \$55/tonne.

Cargo Charges at Flinders Port for liquids are quoted as \$4.22/KL (ex GST). It is considered that Flinders Port related costs should be increased to \$5/tonne.

On the basis of this analysis it would be recommended that treatment, storage and delivery costs be increased to \$72/tonne for feedstock ex Victoria.

### 4.5.2 Picton Plant

#### 4.5.2.1 Western Australia Intra-State

The ARF methodology allows transport cost of \$2/tonne, and treatment & storage costs at the Perth locations of \$11.10/tonne for a total treatment, storage and delivery cost of \$13.25/tonne.

Assuming that the Picton feedstock will be sourced on a similar contractual basis and a pipeline from the storage tanks to the biodiesel plant is installed (ARF have advised that this is correct) then the on-costs for the Picton plant are considered reasonable.

#### 4.5.2.2 Ex New Zealand

The ARF methodology allows on-costs including handling, treatment & storage in New Zealand of \$20, shipping from New Zealand of \$70/tonne, treatment & storage at Port Adelaide costs of \$12.00 and total Port related costs of \$8/tonne amounting to a total transport, handling, storage and treatment cost of \$110.00.

ProAnd's investigation into bulk liquid shipping costs between New Zealand and Southern Australian Ports (Adelaide to Perth) indicate a shipping cost in the region of \$80-100/tonne depending on quantity shipped. Containerised bulk liquid estimates indicate a price of \$122/tonne. Port and treatment and storage charges are considered to be reasonable.

On the basis of this analysis it would be recommended that treatment, storage and delivery costs be increased to \$125/tonne for feedstock ex New Zealand.

#### 4.6 Transaction costs

ARF has entered into an agreement with GS whereby GS sources feedstock and expedites all transactions until delivery to the biodiesel plants.

The transaction fee is a percentage of cost of raw material plus on-costs to deliver to plant and is commercial in confidence. Section 3.2 addresses the transaction fee and concludes that the fee is appropriate.

#### 4.7 Summary

**Figure 27 & Figure 28** on the following pages provide a summary of the delivered feedstock price based on the ARF methodology compared with adjustments made for source volumes, on-costs and base feedstock price.

Adjustments for source volumes and on-costs have relatively small but important cost impacts in the order of \$10 to \$22/tonne.

Adjustment of feedstock price has a significant cost impact. Whilst the ten year average price (\$481/tonne) used in the ARF methodology is an accurate representation of tallow prices over the last ten years, the 2003 year (the highest in the past ten years) exhibited an average tallow price of \$589/tonne while the June 2000 to June 2001 average price was \$4324/tonne. These average 12 month prices represent swings around the ten year average price of plus \$108/tonne and minus \$157/tonne.

Variation in tallow prices will have a significant impact on year to year financial performance of ARF, particularly as price influences on tallow and diesel are dislocated whereas for instance prices for oleo-chemicals derived from tallow compete with oleo chemicals from other fats and oils and these commodities have correlated prices.

It is concluded from an investigation of the methodology applied by ARF that:

- A long-term tallow feedstock price of \$481 is a reasonable basis on which to conduct long-term financial projections, however it must be recognised that fats and oils market prices are volatile and independent of diesel prices. ARF will need to take account of this volatility in feedstock value in planning and management of the project.
- Due to potential shifts in feedstock supply shares for the biodiesel plants, and some variability in on-costs it would be recommended that the base price scenario for feedstock at both Adelaide and Picton be increased by an extra \$20/tonne. The resulting increase of \$20/tonne would arrive at a delivered to site feedstock price of \$566/tonne for Adelaide and \$556/tonne for Picton which is considered reasonable. This recommendation does not impact on the comments regarding price volatility made in the previous paragraph and sensitivity analyses should be performed.
- Due to tallow price volatility it is recommended that financial sensitivity analysis should be performed across a range of delivered feedstock prices.

## 5. Impact of Biodiesel Plant Development

**Figure 27**  
**Delivered Feedstock Price Calculations –**  
Adelaide Plant

Tallow Source	Unit	ARF METHODOLOGY <sup>1</sup>		ADJUSTED VOLUMES AT SAME FEEDSTOCK PRICE <sup>2</sup>		ADJUSTED VOLUMES AT SAME FEEDSTOCK PRICE AND INCLUDING ADJUSTED ON-COSTS <sup>3</sup>		ADJUSTED VOLUMES AT AVERAGE 2003 FEEDSTOCK PRICE AND INCLUDING ADJUSTED ON-COSTS <sup>4</sup>		ADJUSTED VOLUMES AT AVERAGE JUNE 2000-JUNE 2001 FEEDSTOCK PRICE AND INCLUDING ADJUSTED ON-COSTS <sup>4</sup>	
		SA	VIC	SA	VIC	SA	VIC	SA	VIC	SA	VIC
Tallow Available	tonne/annum	38000	192000	36000	130000	36000	130000	38000	130000	38000	130000
Feedstock Used by ARF	tonne/annum	15000	25000	10000	30000	10000	30000	10000	30000	10000	30000
Feedstock % of Available Tallow	%	39%	13%	28%	23%	28%	23%	26%	23%	26%	23%
Feedstock Price	SA/t	\$481	\$481	\$481	\$481	\$481	\$481	\$589	\$589	\$324	\$324
Transport and Handling On-Costs	SA/t	\$13	\$54	\$13	\$54	\$13	\$72	\$13	\$72	\$13	\$72
% Utilisation by Tallow Source	%	38%	63%	25%	75%	25%	75%	25%	75%	25%	75%
Transaction Fees	SA/t	\$25	\$27	\$25	\$27	\$25	\$28	\$30	\$33	\$17	\$20
Total Delivered Cost	SA/t	\$519	\$562	\$519	\$562	\$519	\$581	\$632	\$694	\$354	\$416
<b>Blended Feedstock Delivered Price</b>	<b>SA/t</b>	<b>\$546</b>		<b>\$551</b>		<b>\$565</b>		<b>\$679</b>		<b>\$400</b>	

- 1 - As in Feedstock Pricing Methodology Supplied to ProAnd
- 2 - Volumes adjusted as per section 4.3.1 of Report
- 3 - Volumes adjusted as per section 4.3.1 and On-costs adjusted as per section 4.5.1
- 4 - Volumes adjusted as per section 4.3.1 , On-costs adjusted as per section 4.5.1 and Feedstock Price as per section 4.1

**Figure 28**  
**Delivered Feedstock Price Calculations –**  
Picton Plant

Tallow Source	Unit	ARF METHODOLOGY <sup>1</sup>		ADJUSTED VOLUMES AT SAME FEEDSTOCK PRICE <sup>2</sup>		ADJUSTED VOLUMES AT SAME FEEDSTOCK PRICE AND INCLUDING ADJUSTED ON-COSTS <sup>3</sup>		ADJUSTED VOLUMES AT AVERAGE 2003 FEEDSTOCK PRICE AND INCLUDING ADJUSTED ON-COSTS <sup>4</sup>		ADJUSTED VOLUMES AT AVERAGE JUNE 2000-JUNE 2001 FEEDSTOCK PRICE AND INCLUDING ADJUSTED ON-COSTS <sup>4</sup>	
		WA	NZ	WA	NZ	WA	NZ	WA	NZ	WA	NZ
Tallow Available	tonne/annum	42000	134000	39000	120000	39000	120000	39000	120000	39000	120000
Feedstock Used by ARF	tonne/annum	20000	20000	12500	27500	12500	27500	12500	27500	12500	27500
Feedstock % of Available Tallow	%	48%	15%	32%	23%	32%	23%	32%	23%	32%	23%
Feedstock Price	SA/t	\$462	\$432	\$462	\$432	\$462	\$432	\$569	\$587	\$292	\$322
Transport and Handling On-Costs	SA/t	\$13	\$110	\$13	\$110	\$13	\$125	\$13	\$125	\$13	\$125
% Utilisation by Tallow Source	%	50%	50%	31%	69%	31%	69%	31%	69%	31%	69%
Transaction Fees	SA/t	\$25	\$30	\$25	\$27	\$24	\$28	\$29	\$36	\$15	\$22
Total Delivered Cost	SA/t	\$500	\$572	\$500	\$569	\$499	\$585	\$611	\$748	\$320	\$469
<b>Blended Feedstock Delivered Price</b>	<b>SA/t</b>	<b>\$536</b>		<b>\$548</b>		<b>\$558</b>		<b>\$705</b>		<b>\$423</b>	

- 1 - As in Feedstock Pricing Methodology Supplied to ProAnd
- 2 - Volumes adjusted as per section 4.3.2 of Report
- 3 - Volumes adjusted as per section 4.3.2 and On-costs adjusted as per section 4.5.2
- 4 - Volumes adjusted as per section 4.3.2 , On-costs adjusted as per section 4.5.2 and Feedstock Price as per section 4.1

### 5.1 Supply/Price Risks Due to ARF Biodiesel Development.

Tallow prices are derived from the international fats and oils market and utilisation of 80,000 tonnes/annum would not be expected to have any direct impact on international prices.

There is however likely to be a localised effect whereby competition for the lower quality tallow will reduce the price differential between "Bleachable Fancy Tallow" and the lower grades of tallow.

Access to NZ mutton based tallow is considered to be important to spread the supply base and gain greater access to the generally lower value mutton and mixed species product.

Price effects at the volumes projected (80,000 tonnes/annum Adelaide and Picton) are likely to be localised.

The risks include:

- Total volumes produced in each of SA and WA are projected to be in the order of 35,000 to 40,000 tonnes/annum (see **Figure 21**), and significant proportions of these tallows will be high quality bleachable beef tallow (e.g. Teys-SA and EG Green-WA). It is therefore considered that it will be necessary to transport tallow from other Australian states, import tallow (e.g. from NZ) or use substitute products (e.g. vegetable oils).
- GS being able to maintain a competitive feedstock purchasing and on-cost performance into the future.
- Significance of the impact of other entrants into the biofuel manufacturing sector.
- The most direct competition for tallow for the South Australian biodiesel plant is likely to come from Symex Holdings Limited which is located in Victoria and is Australia's only manufacturer of oleine, stearine, glycerine and distilled fatty acids derived from Australian tallow.
- The US/Australia FTA will increase the opportunity to export oleo-chemical products to the US. Australian oleo-chemical manufacturers are likely to have cost advantages over Malaysian and Indonesian oleo-chemical product manufacturers due to the availability of tallow compared to more expensive palm oil.
- Sales of Australian oleine-chemical products are expected to increase in the order of 10-15% pa in the near future.

### 5.2 Global Price/Supply risks

There is no apparent reason to alter the observation that international tallow prices will continue to fluctuate significantly as they have in the past.

The risks include:

- A significant supply/price risk would be associated with a production failure in a part of the global oilseeds complex, in particular a crop failure in the palm oil sector due to palm oil's competitive position with tallow and its significance in the internationally traded markets for fats and oils.
- Price risk could be significantly impacted by changes in palm oil taxation regimes eg:
  - Indonesia reduced export tariffs on Crude Palm Oil from 60% in 1998 to 3% in 2001. This would have had an influence on the price reduction in international fats and oils market over the 1998-2001 period (see **Figure 1**).
  - India (the largest importer of palm oil in 2002) alters its import tariff regime according to domestic supply of vegetable oils (e.g. for CPO: Dec 1999-16.5%; June 2000-16.5%; Nov 2000-25%; Feb 2001-75%; Oct 2001-65%; April 2003-65%)
- Changes in support mechanisms for the production of biofuels as a response to global warming will likely have an impact on supply/price mechanisms in the overall fats and oils sector. The impact is unpredictable as it will depend on the magnitude and method of support mechanism/s instituted.
- Tallow is a by-product of meat processing, it is not an item that can be produced independently of meat production. Meat production will continue however there could be some future shocks associated with animal disease issues. The impact of an outbreak of diseases such as FMD or BSE will have an impact on meat production and consequently on tallow supply and trade.
- The sudden imposition of phyto-sanitary measures which restrict or prohibit international trade in tallow can have a significant impact on the commodity's pricing patterns. For example, the US was shut out of Mexico - one of its major tallow markets - for most of 2004 following the discovery of

a BSE-positive cow in December 2003. This had an impact on tallow trade patterns and posed questions in international markets about the safety of edible tallow.

- The upper limit for tallow price would be considered to be the USA Bleachable Fancy tallow price due to the volume of internationally traded tallow from this source. In recent years Australian and US tallow has been traded at similar prices (see Figure 1).

### 5.3 Availability of Other Low-Cost Sources of Fats

Figure 2 & Figure 3 show that alternative feedstock for bio-diesel production is available in greater production and internationally traded volumes than tallow however Figure 1 clearly shows the competitive position of tallow as a low cost feedstock for ARF.

An alternative feedstock that it is recommended be further investigated is waste edible oil. At present waste edible oil is collected from fast food, restaurant and factories and is recycled for use in livestock and pet-food or for the production of oleo chemicals for use in a variety of industry sectors. Some waste edible oil is also reported to be utilised in small biodiesel manufacturing operations.

This sector appears to be controlled by the waste edible oil collectors and information on volumes and values is difficult to access.

## 6. Background of Independent Technical Expert

PAA is a specialist meat industry consultancy providing analysis, planning, strategic services and market research.

Principal Consultant, Jon Marlow, has tertiary qualifications in Chemical Engineering and over 25 years of experience in co-products derived from the meat processing industry, including rendered products. PAA commenced operations in Australia when Jon established the Australian company in 1988. The activities of the company focus on all aspects of meat processing and marketing in Australia and internationally.

## 7. Assumptions and Qualifications

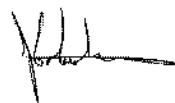
All descriptions, analyses, forecasts and other details have been prepared in good faith from information furnished to PAA by internationally recognised sources and other parties. These data are believed to be correct at the date of preparation of this report and whilst best endeavours have been used to validate the data, no warranty of accuracy is given to the information contained in the report and obtained from these sources. Predictions, forecasts and calculations are subject to assumptions which may or may not turn out to be correct.

The production and trade figures used in this document should be seen as market estimates. BSE (Mad Cow Disease), epizootic diseases (e.g. FMD), trade embargoes, taxation regimes, labour disputes, military conflicts, acts of terrorism and other events will affect trade flows.

## 8. Statement of Independence

This report is an independent report. PAA does not have any pecuniary or other material interest in the company. The payment of fees is not contingent upon the outcome of the Prospectus.

Yours Sincerely



Jon Marlow  
ProAnd Associates Australia Pty Ltd

### REFERENCES

- |   |   |   |  |  |   |   |   |  |   |   |   |  |  |  |   |   |   |
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Dear Directors

## INDEPENDENT ENGINEERS' REPORT ON ENERGEA TECHNOLOGY

This report has been prepared by Parsons Brinkerhoff Limited ("PB") for inclusion in a Prospectus to be dated on or about 14 March 2005, relating to the offer by Australian Renewable Fuels Limited ("ARF") of up to 20 million fully paid ordinary shares of one dollar each.

### Executive Summary

PB has conducted an independent engineering assessment on behalf of Australian Renewable Fuels Ltd (ARF) on the Energea biodiesel technology, which ARF has selected for its biodiesel plants. PB's scope of work included only a review of the process technology and its suitability for ARF's projects and did not, therefore, represent a full technical due diligence. This report provides a summary of our assessment, which was conducted during October 2004. We have based this assessment on information provided to us by ARF and Energea, supplemented by our previous experience of the Energea technology and of biodiesel production in general.

The Energea biodiesel process uses the standard trans-esterification reaction of an oil with methanol to produce biodiesel and glycerol. The process is continuous, with a number of reaction and separation steps to achieve the desired conversion. A plant at Zistersdorf in Austria uses this process, which has a similar capacity to the proposed ARF plants, and this reference plant operates with a range of oil feedstocks that includes recovered vegetable oils and virgin oils such as rape seed. ARF, however, wish to use a wider range of feedstocks (including tallow), and the design for their plants will therefore differ from that of Zistersdorf. A pre-esterification unit will be added to deal with the higher levels of free fatty acid (FFA) that may be present in ARF's oil feedstocks. This unit will also treat the soap phase that is separated from the biodiesel during trans-esterification. The unit replaces the separate unit used for this purpose at Zistersdorf. Centrifugal separators will also be used (vs. the current static separators at Zistersdorf) to improve separation efficiency. We consider these modifications to be appropriate given the range of oils that ARF wishes to use. Although they have not been proven on a full-scale reference plant, with suitable detailed design they should permit the Energea technology to process oils with up to 10 per cent FFA.

In PB's view, the Energea technology is suitable for ARF's plants. Tallow has not been used as a feedstock on Energea's existing plant at Zistersdorf, however Energea have indicated that ARF's plants will be designed to process a range of feedstocks including tallow. Provided this design is conducted appropriately, we consider that the technology is capable of successfully converting tallow to biodiesel.

Supply of oil feedstock will be from Gardner Smith Pty Limited (Gardner Smith). ARF has indicated that Gardner Smith has committed to supply material that meets the requirements in Energea's Offer document.

We have reviewed operating assumptions contained in the project financial model. Overall, we consider these assumptions reasonable. There are a number of minor costs such as nitrogen supply and waste water treatment that are not explicitly identified in the model, but which ARF has indicated are included within the contingency provisions.

Energea and their process engineering partner Power Tech International (PTI) are small companies who are developing a number of projects in parallel. While they have suitable technical expertise, their capability to support ARF during on-going operations after plant handover could be affected by commitments on other projects. We would advise ARF to gain as much training as possible for their plant operators during the plant erection and commissioning phases of the project.

The overall schedule committed to by Energea and ARF provides an overall 13 months schedule from contract commencement to completion of plant erection. While this schedule is achievable, it depends on delivery of long leadtime items of equipment. Confirmation of delivery dates for these will allow the detailed schedule to be established.

This report represents our professional opinion as a Consulting Engineer on the issues defined by our scope of work, and is not an invitation or recommendation to invest. Any comments on the technical implications of legal documents such as contracts are non-legal in nature and should not in any way be taken as providing legal advice.

# Independent Engineers' Report on Energea Technology

## 1. INTRODUCTION

### 1.1 Context

PB was engaged by ARF to assess the Energea biodiesel technology chosen for ARF's proposed Australian plants.

### 1.2 Terms of reference

In summary, PB's scope was to:

- Provide an engineering opinion of the Energea biodiesel process proposed for ARF's plants and its suitability for the intended feedstocks.
- Review the production assumptions used in the project financial model.
- Comment on the capability of Energea.

PB's assessment was conducted in October 2004.

### 1.3 Approach and limitations

As indicated in Section 1.2 above, PB's role was to provide an independent engineering opinion on the proposed biodiesel technology. Our work did not constitute a full technical due diligence assessment and aspects such as contract status and provisions, compliance with statutory regulations, site condition or suitability and environmental permitting (among others) did not form part of our scope. We have not been provided with any technical, contract, legal or accounting due diligence appraisals that may have been conducted by others.

Opinions expressed in this report are based on information provided by ARF and Energea, and on our knowledge of biodiesel technology in general. These opinions are provided on the basis that the information supplied to us is reliable, accurate and complete. Given the status of the project, detailed engineering designs are not yet available and have not been reviewed. Many of our comments are therefore limited to the general capability of Energea's technology, and the specific performance of the plants provided to ARF will be dependent on their detailed design.

This report represents our professional opinion as a Consulting Engineer on the issues defined by our scope of work, and is not an invitation or recommendation to invest, nor is it a warranty or guarantee. Any comments on the technical implications of legal documents such as contracts are non-legal in nature and should not in any way be taken as providing legal advice.

### 1.4 Report structure

This report is divided into 5 sections, including this introduction.

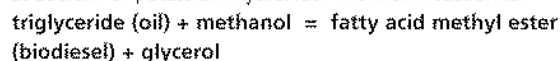
- Section 2 discusses the biodiesel process proposed for the project;
- Section 3 reviews the technical elements of the project costs;
- Section 4 considers the capability of the main process plant contractors;
- Section 5 provides comments on the project schedule.

Appendix A contains a list of documents reviewed by PB during the work.

## 2. BIODIESEL TECHNOLOGY

### 2.1 Energea biodiesel technology

Biodiesel is a well-established fuel, with many production plants now operational around the world. The basic chemistry of its production, where an oil or fat is converted to fatty acid methyl ester (commonly known as biodiesel) is well understood, and most commercial operations achieve this conversion by a trans-esterification reaction using methanol and a basic catalyst such as sodium or potassium hydroxide. The main reaction is:



Oils and fats used in commercial production of biodiesel include recovered vegetable oils, virgin vegetable oils (e.g. rapeseed, soya, palm) and animal fats such as tallow.

ARF have selected Energea to supply the biodiesel process plant for their facilities. A plant using Energea technology exists at Zistersdorf in Austria, and Energea has a number of other projects in Europe at either the construction or development stage. Their biodiesel technology is a continuous process, using the standard reaction chemistry of oil reacted with methanol and a potassium hydroxide catalyst.

The Zistersdorf plant has been in operation for just over 2 years, and uses recovered and virgin vegetable oils as its feedstocks. The Zistersdorf operation is discussed in more detail below, but in general terms, the capability of the Energea technology to produce biodiesel can be considered proven.

### 2.2 Capability of proposed plant

#### 2.2.1 Scope

The scope of supply described in Energea's Offer document (hereafter referred to as "the Offer") for the process plant appears reasonably comprehensive at this stage of the project i.e. prior to any detailed engineering having taken place. We have not reviewed the scope of works for ARF's other contractors.

There are a number of differences between the Zistersdorf plant and the proposed design for ARF. Most significantly, a pre-esterification unit has been added, which is necessary to deal with the higher levels of free fatty acid (FFA) that may be present in ARF's oil feedstocks. This unit will also treat the soap phase that is separated from the biodiesel during trans-esterification. It replaces, therefore, the separate unit used for this purpose in the Zistersdorf design.

Energea has also informed us that they intend to use centrifugal separators for two of the separation stages in the process (compared to the static separators used at Zistersdorf). This is designed to increase separation efficiency across the range of intended feedstocks.

We would consider the use of centrifugal separators to be a relatively low technical risk. This is an established method for separating animal and vegetable oils and fats and we understand that Energea have successfully trialled this approach at Zistersdorf. Pre-esterification of the kind to be used here is widely performed elsewhere in the biodiesel and oleochemical industries and with

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# Independent Engineers'

## Report on Energea Technology

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correct design this approach should be appropriate. Given that the transesterification unit will be designed to process oil with up to 4% FFA, there is flexibility in the permissible output from the pre-esterification unit.

### 2.2.2 Oil feedstock

PB understands from ARF that they plan to use tallow as their oil feedstock initially but that other oils may be used in future. The plant, therefore, needs to be able to handle multiple oil feedstocks.

#### 2.2.2.1 Chemical properties

Different oils will have different chemical and physical properties that affect the trans-esterification process. Among the chemical properties, FFA and water content are among the most important, as these will take part in unwanted side-reactions that reduce yield and consume catalyst. These are dealt with in the Offer by specifying the acceptable water content in the feedstock, and by including a pre-esterification stage to reduce levels of FFA.

The Offer contains a number of limits on oil composition, and ARF has a feedstock contract with Gardner Smith to supply fats. ARF has indicated that Gardner Smith has committed to supply oils that meet the requirements of the Offer.

Operating data from Zistersdorf shows that oils with FFA levels ranging from 0.6 – 6.8 per cent have been converted into good quality biodiesel. Provided that the plant design provides sufficient acid pre-esterification capacity, there appears to be no technical reason why Energea's technology could not handle FFA levels of up to 10 per cent.

Records from Zistersdorf indicate that it has operated successfully using recovered vegetable oil, rape seed oil, palm oil and sunflower oil.

#### 2.2.2.2 Physical properties

Physical differences between oils include the viscosity-temperature profile, which will affect the pumping, transfer and blending behaviour of the oil. This obviously requires equipment to be suitably sized to handle the potential range of oils. In addition, Energea's technology relies on intense mixing between the oil and methanol phases to drive the reaction to completion, and the blending properties of the oil and its miscibility with the methanol phase are therefore critical to the process.

To date, Zistersdorf has operated using both recovered and virgin vegetable oils. These will have had a range of viscosities (recovered oils typically have higher viscosities than virgin oils). Tallow has not been used at Zistersdorf and Energea have indicated that only laboratory scale tests using tallow have been conducted. Tallow has a higher melting point than vegetable oils and, even when liquid, it is likely to have different flow properties. Energea have committed to design the plant accordingly.

Tallow obviously needs to be heated above its melting point in

order to be handled. ARF will need to manage their supply chain to avoid lengthy storage of molten tallow, as the temperatures involved are likely to increase the FFA level over time.

#### 2.2.2.3 Other properties

Other properties of the oil, such as the level of phosphorous, will not impact directly on the trans-esterification process but are important properties in meeting biodiesel quality standards. These need to be controlled by using an appropriate quality of oil feedstock.

### 2.2.3 Operation

ARF's plants will be designed to produce 40,000 tonnes per year of biodiesel, the same as the capacity of the Zistersdorf plant. Due to its operating regime, which has been chosen as 5 days per week, Zistersdorf does not produce this annual volume. While Energea report that instantaneous rates of 5 tonnes per hour have been achieved, they have indicated that the average throughput is limited by oil availability to 3.6 – 4 tonnes per hour. The plant production data supplied to us suggests that rates of this order have been achieved.

The crucial factor in producing the desired production rate will be ensuring the plant design accounts for the properties of the oils used. Provided this is done, the instantaneous throughput of 5.3 tonnes per hour of biodiesel planned for ARF's facilities should be achievable.

The available Zistersdorf production data does not provide a direct indication of plant reliability. Taking into account the weekend shutdowns, the plant appears to have produced on 71 per cent of the available days in the period of June to September 2004. Oil supply and the use of the plant for development trials are likely to have influenced this value.

We would expect that a continuously operated plant (with no weekend shutdown or use for trials) would be able to achieve more reliable operation than Zistersdorf and that the 85.6 per cent reliability given in the Offer is a reasonable expectation for ARF's plants. This is based on a flow of 5.33 tonnes per hour, and operation for a minimum of 7,500 hours per year. On-going, a reliability of 90 per cent should be achievable. The project model assumes an output of 40,000 tonnes of biodiesel per year, in line with the minimum capacity guaranteed by Energea.

### 2.2.4 Utilities

We have reviewed the utilities that the plant will require and those defined in the Offer. Each is discussed separately below. Note that these refer to the Energea process plant only and do not include any requirements from other parts of the plant.

#### • Steam

The Offer indicates a maximum steam requirement of 1590 kg/hr at 7 bar. This appears to be a reasonable assumption provided that steam is used for biodiesel drying and methanol recovery only (these are likely to be the major steam duties within the Energea process).

#### • Compressed air

The Offer indicates a maximum requirement of 53 Nm<sup>3</sup>/hr at

## Independent Engineers' Report on Energea Technology

8 bar. Compressed air is likely to be required for both instrument actuation and general operations. Provided that the supply is suitable for instrument use (sufficiently dry and oil-free) this volume appears reasonable.

- **Nitrogen**

The Offer specifies a maximum requirement of 26.5 Nm<sup>3</sup>/hr at 3 bar. This appears to be a reasonable assumption.

- **Demineralised water**

This is actually a process raw material. The assumption in the Offer of 186 litres per hour appears reasonable based on our mass balance analysis (see Section 2.3 below).

- **Power**

The Offer specifies a maximum electrical demand of 265 kW. This is reasonable for a plant of this size and type.

- **Cooling water**

The Offer specifies a maximum of 148 m<sup>3</sup>/hr of cooling water, with a temperature change of 7 degrees C. This represents 4.35 million kJ/hr of cooling, which should be sufficient for the cooling duties of the process plant. Energea also need to specify the cooling water inlet temperature in order to allow ARF's utility supply contractor to ensure the correct supply.

- **Chilled water**

The Offer does not identify any chilled water requirement. Energea have indicated that, depending on the design of certain process units (in particular the condensers for the recovery of methanol), chilled water may be required. If cooling water is to be used instead, these units will need to be commensurately larger. Energea need to confirm this requirement so that sufficient supply can be arranged.

- **Warm water**

This is identified as a utility within the Offer, although the volume and temperature is not defined. Again, Energea need to identify the requirement so that sufficient supply can be arranged.

### 2.3 Raw materials

We have conducted a mass balance analysis to consider the likely inputs and outputs from the plant. On comparison with the quantities in the draft offer, we consider Energea's assumptions to be broadly reasonable. However, we believe that usage of minor raw materials such as potassium hydroxide could be somewhat higher than assumed if high levels of FFA are present in the oil feedstock. We also note that the usage of sulphuric acid has not been included in the guaranteed levels in the Offer, although indicative levels are given elsewhere. This represents a minor cost, which ARF has indicated they have allowed for in their financial model.

### 2.4 Products, by-products and wastes

The Offer specifies biodiesel meeting the European standard (EN 14214).

The plant will also produce crude glycerol and potassium sulphate paste as by-products. Both of these have potential markets and may be able to be sold.

The principal waste streams from the biodiesel process are likely to be waste water and gaseous methanol. There will also be periodic waste material from losses, for example during loading and

unloading of materials or when the plant is opened for maintenance or cleaning. The levels of these wastes will depend on how the plant is operated, since much of the material could potentially be recovered and recycled back into the process. Nevertheless, a certain level of waste material will be produced by the plant and will need to be dealt with.

There are also likely to be small amounts of filtration or separation residues from the pre-esterification plant, depending on the quality of oil purchased by ARF, and these will need to be disposed of. There may be a minor cost associated with this.

Note that other sources of effluent from outside the process plant are outside the scope of this study and have not been considered.

### 2.5 Staffing

With the level of automation indicated in Energea's Offer, one operator could reasonably carry out process supervision and control. Other tasks necessary for continuous plant operation include:

- Supply of non-bulk raw materials to the process (e.g. potassium hydroxide in big-bags).
- Removal of solid products/wastes (e.g. potassium sulphate paste).
- Sampling of oil and biodiesel.
- Reception and discharge/filling of tankers for oil, biodiesel and other materials handled in bulk.
- General plant maintenance and cleaning.

We have reviewed the likely frequency of these activities, given the plant design throughput, and consider that staffing levels of 2-3 operators per shift would be appropriate. The assumption in the project model of 10 operators is therefore considered reasonable.

### 2.6 Laboratory requirements

Measurement and analysis requirements of the plant can be divided into three categories:

#### 2.6.1 Physical properties for process control

This includes the temperature and pressure of various process streams. These can be readily performed by on-line sensors that feed automatically into the process control system.

#### 2.6.2 Chemical parameters critical for product quality

These are used for process control purposes, and need to be measured frequently to allow effective continuous operation. Parameters include FFA and water levels in the oil feedstock and biodiesel product, and non-esterified material in the biodiesel.

These parameters can be measured using relatively simple equipment (e.g. automatic titrators) that could be located in the plant control room. Suitably trained process plant operators could conduct the analyses. We would suggest that an hourly or two-hourly frequency is appropriate for these analyses.

#### 2.6.3 Other parameters to ensure on-going compliance

A number of other properties of the raw materials and products will need to be analysed to ensure that the required specifications are being met. ARF will need to identify their approach to these as the project progresses.

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# Independent Engineers'

## Report on Energea Technology

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Full raw material quality results should be provided with each delivery by the suppliers and verified by ARF during commissioning (and on an occasional basis thereafter).

Finished product analysis on the biodiesel and glycerol will be needed to demonstrate to customers that material meets the full specification. Many of these properties will be dependent on the feedstocks used so, provided raw material and process analysis results are within limits, these items can be expected to meet limits also.

Parameters in this category could be measured on a daily or weekly basis and would be suitable for analysis by an off-site laboratory should ARF not wish to establish such a facility on site. The project model assumes 2 contract laboratory staff. Provided that plant operators are able to conduct the tests described in Section 2.6.2 above, this is a reasonable provision.

### 2.7 Technical risks

While we consider that the Energea technology should be capable of using tallow as a feedstock, this has not yet been done on a commercial scale (although the Zistersdorf plant has successfully used palm oil feedstock, which has similar physical properties). Energea has indicated that their design will account for the physical properties of tallow to ensure that target quality and production rates can be achieved.

There are a number of equipment items that are critical to the process operation and where the risk of failure can be considered relatively high. In particular, we would highlight the high-pressure pumps feeding the reactors.

## 3. PROJECT COSTS

### 3.1 Project financial model

We have reviewed the copy of the project financial model provided by ARF, and have the following comments on the technical assumptions within it.

#### 3.1.1 Capital costs

We understand from documentation supplied by ARF that the contract with Energea to construct the plant provides for a fixed price to supply, transport, erect and commission the process plant. While we are clearly unable to comment on how Energea have constructed this price, we consider it reasonable given the scope of work.

The contract between ARF and Energea breaks payment of this sum into a number of tranches, dependent on the achievement of certain milestones. From our review of the contract, the criteria for these milestones appear to be appropriate.

#### 3.1.2 Operating costs

The following plant operating costs have been reviewed:

- A plant operating staff of 10 is assumed. As noted in Section 2.5 above, this is considered reasonable.
- An annual maintenance cost of 3 per cent of the capital cost is assumed. This is a reasonable assumption, provided maintenance is provided locally. We note that the sum to be paid to Energea should ARF contract with them to provide

maintenance is 3.5 per cent of the process plant cost.

- The usage of raw materials assumed generally matches that guaranteed in Energea's Offer. However, use of potassium hydroxide is assumed to be 1.29 per cent of oil consumed, while the Offer guarantees a use of 1.0 – 1.8 per cent. ARF has indicated that they will adopt a level of 1.8 per cent in their model. A contingency of 5% of non-oil materials has also been included, which should provide some flexibility for operational variations and losses.
- Electricity consumption of 100 kWh per tonne of feedstock mix has been assumed. This equates to a demand of 600 kW, which is in excess of the requirement for the process plant. We are unable to comment on the electrical demand of the non-process parts of the plant.
- Water consumption of 250 litres per tonne of feedstock mix has been assumed. This is equivalent to approximately 1.5 tonnes per hour, which is sufficient to meet the needs for demineralised water to the process. It should also be sufficient to cover the make-up water needs for the steam and cooling water systems (assuming that the latter is a closed-loop system).
- Other costs such as nitrogen and compressed air are not explicitly included in the project model. ARF has indicated that these costs, which are relatively small, are allowed for in the contingencies of their model.
- No explicit allowance for waste disposal costs has been included in the model. While this is likely to be mainly waste process water, there will still be some disposal or treatment costs. ARF has indicated that these costs have been allowed for in the project contingencies.

## 4. CONTRACTOR CAPABILITY

### 4.1 Energea and Power Tech International

Energea is an Austrian biodiesel technology company. Energea focuses on the development of biodiesel technology, where they have been granted a number of patents.

Energea is developing a number of projects, but do not have the capability in-house to conduct the necessary process engineering and project management. They have therefore developed a relationship with Power Tech International Anlagenbau (PTI), who act as a subcontractor to carry out these tasks.

Given that Energea and PTI have a number of projects in construction or development, their capability to provide on-going operational support to ARF is likely to depend on the relative schedules of these projects. It is not clear that Energea/PTI would have sufficient resources at present to support several projects at the same time. Note that this comment applies to operational support after plant acceptance only – the contract between ARF and Energea provides incentives for them to provide full support prior to final handover of the plant to ARF.

### 4.2 Others

A review of the other contractors involved with ARF's projects is beyond the scope of this report, and we therefore are unable to comment on their capabilities.

## 5. PROJECT PROGRAMME

### 5.1 Development and construction programme

The Offer indicates a 9 month construction time for plant units to be built and assembled into modules prior to shipment. This appears to be a reasonable schedule, although we would note that the critical leadtimes within this are likely to be on supply of large process units such as decanters and centrifuges. These will depend on Energea's suppliers achieving certain delivery leadtimes.

An erection time on site of 6 weeks is specified in the Offer. This appears reasonable, providing there are no delays due to other elements of the site, such as foundations or access roads, and provided that (as specified in the contract) no-load testing of the modules is carried out prior to shipment.

### 5.2 Commissioning programme

The Offer indicates a commissioning time of 6 weeks. This period is defined in the contract as the time between the completion of plant erection and the acceptance of the plant by ARF. Since the erection includes all connections and the completion of no-load testing, we consider this commissioning period to be realistic. The Performance Tests appear to be well defined and specify the appropriate plant performance parameters.

A ramp-up time to full production of 4 months is assumed in the Scope of Works. We do not consider there to be specific technical barriers to achieving this, but would comment that the length of this period will be heavily dependent on operational aspects such as the degree of operator training and the level of on-site support from Energea. We note that ARF intends to recruit operators during the construction phase, allowing them to participate fully in plant commissioning. This should prove beneficial during the production ramp-up phase.

### 5.3 Schedule risks

In our opinion, the principal schedule risks lie with the initial delivery of long leadtime equipment to Energea from their suppliers. A period of 6 months or more is typically required for some of these items. Delay in supply could delay construction and testing of plant modules and thus affect the overall schedule. The alternative would be to ship the delayed items direct to site. This, however, would add time to the on-site construction and commissioning programme. We note that the contract between Energea and ARF provides for liquidated damages in the event of delay to project completion.

Yours faithfully



Parsons Brinckerhoff Limited

## APPENDIX A – DOCUMENTS REVIEWED

The following documents were reviewed by PB during the course of this study:

"Engineering Assessment of the Energea Biodiesel Technology - Scope of Work June 2004" – provided by ARF

"Offer for a continuous Energea biodiesel plant" – plant description from Energea, provided by ARF

Project contract between ARF and Energea – supplied by ARF

Performance Test Protocol – supplied by ARF

Roles and Responsibilities (schedule 4 of the contract) – supplied by ARF

IPO Summary model ver 5 22-09-04 – project financial model supplied by ARF

"Analysendaten Labor.pdf" – Zistersdorf quality control data for June-Sept 2004 – supplied by Energea

"Produktionsaufzeichnungen 041.pdf" – Zistersdorf production data for June-Sept 2004 – supplied by Energea

"Feedstock Supply Agreement" – between ARF and Gardner Smith

17 March 2005  
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Dear Sirs

## INDEPENDENT ACCOUNTANT'S REPORT ON CONSOLIDATED HISTORICAL AND PRO-FORMA FINANCIAL INFORMATION

### 1. INTRODUCTION

The Directors of Australian Renewable Fuels Limited ("ARF" or "the Company") have requested Ernst & Young to prepare an Independent Accountant's Report covering the historical consolidated statement of financial position and the pro-forma consolidated statement of financial position as at 31 December 2004. This report has been prepared for inclusion in a prospectus ("the Prospectus") to be dated on or about 14 March 2005 relating to the offer by ARF of 20 million fully paid ordinary shares ("Shares") at \$1.00 each to raise an amount of \$20 million ("the Offer") before expenses.

The Offer is underwritten by SHAW Stockbroking Limited.

The Company will apply to the Australian Stock Exchange Limited for official quotation of the Shares offered pursuant to the Prospectus.

### 2. BACKGROUND INFORMATION

ARF was founded by Amadeus Energy Limited ("Amadeus") in May 2001. Amadeus was financially responsible for the development of ARF until October 2004 when the Local Government Superannuation Board ("SANT") acquired a 33.3% shareholding. Additional funding is being obtained through a conditional Federal Government grant of \$7.15 million, which has been awarded to the Company to assist in the construction of its plants.

In January 2005, ARF issued \$16 million in Convertible Notes to secure unconditional funding for its second Biodiesel plant in Picton, Western Australia.

Proceeds from the Offer will be used to:

- replace the security for the existing finance facility provided by Amadeus;
- acquire Shelly Nominees Pty Ltd (the holder of a production royalty);
- provide additional working capital (including capital contingency); and
- pay the costs of the Offer.

The Adelaide and Picton plants have been ordered and are under construction by an Austrian manufacturer. Site works have commenced at the Adelaide site. The Company expects that operations will commence at Adelaide in November 2005 and at Picton in March 2006.

ARF owns 100% of Australian Renewable Fuels Adelaide Pty Ltd and Australian Renewable Fuels Picton Pty Ltd and 50% of ASG Analytik Pty Ltd.

### 3. SCOPE

#### Historical and Pro-forma Consolidated Financial Information

We have conducted an independent review of the historical and pro-forma consolidated statements of financial position as at 31 December 2004, as set out in Section 5.5 of the Prospectus.

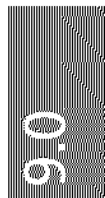
The Directors of ARF have prepared and are responsible for the historical and pro-forma consolidated statements of financial position. We disclaim any responsibility for any reliance on this report or on the financial information to which it relates for any purposes other than that for which it was prepared. This report should be read in conjunction with the Prospectus.

The historical consolidated financial information has been extracted from the reviewed statutory financial statements of the Company which were reviewed by the auditor, Horwath Perth, and for which an unqualified review opinion was issued. No adjustments have been made to the reviewed statutory financial statements.

The purpose of the pro-forma consolidated statement of financial position is to show the financial effects on ARF as if the following transactions had taken place as at 31 December 2004:

- The issue of 16,000 Convertible Notes at an issue price of \$1,000 per note to raise \$16 million before expenses. The Convertible Notes will convert to 24 million Shares when the Company receives conditional approval to list on the ASX.
- The issue of 20 million Shares at an issue price of \$1.00 per Share pursuant to this Prospectus to raise \$20 million before expenses.
- The payment and recognition directly in equity of \$2.88 million in fundraising costs, being \$0.95 million for the Convertible Note issue and \$1.93 million for the Share issue pursuant to this Prospectus. An amount of \$0.256 million was paid prior to 31 December 2004.
- Purchase of Shelly Nominees Pty Ltd for \$15.6 million to Darryl Butcher by way of:
  - The issue of 12.6 million Shares at an issue price of \$1.00 per Share;
  - The payment of \$1 million being a third of the cash component payable; and
  - The recognition of \$2 million owing to Darryl Butcher, being the remaining cash component payable. This is payable on the assumption that the project meets the milestones set out in the Sale and Purchase Agreement for Shelley Nominees Pty Ltd as set out in Section 12 of the Prospectus.

# Independent Accountant's Report on Consolidated Historical and Pro-forma Financial Information



We have reviewed the historical and pro-forma consolidated statements of financial position as at 31 December 2004 as set out in Section 5.5 of the Prospectus, in order to state whether, on the basis of the procedures described, anything has come to our attention that would cause us to believe that:

- (i) the historical statement of financial position as at 31 December 2004 is not presented fairly in accordance with the measurement requirements, but not all of the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia; and
- (ii) the pro-forma consolidated statement of financial position is not presented fairly in accordance with the measurement requirements, but not all of the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, as if the transactions as set out in Section 5.5 of the Prospectus had taken place as at 31 December 2004.

Our review has been conducted in accordance with Australian Auditing and Assurance Standard AUS 902 "Review of Financial Reports" and was limited to inquiries and discussions with the Directors and personnel of ARF, reading of Directors' minutes and relevant contracts, analytical review procedures applied to the financial data, the performance of limited verification procedures and comparison for consistency in application of accounting standards and policies. We have also held discussions with the Company's auditors, Howarth Perth, and have reviewed their work papers in respect of the review for the half-year ended 31 December 2004. Our review also determined whether the pro-forma transactions formed a reasonable basis for the preparation of the pro-forma consolidated statement of financial position as set out in Section 5.5 of the Prospectus.

These review procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit on the historical and the pro-forma consolidated statements of financial position, as set out in Section 5.5 of the Prospectus, and accordingly we do not express an audit opinion on the historical and the pro-forma consolidated statements of financial position.

#### 4. REVIEW STATEMENTS

##### Historical Consolidated Statement of Financial Position – 31 December 2004

Based on the scope of our review, which is not an audit, nothing has come to our attention that causes us to believe that the historical consolidated statement of financial position, as set out in Section 5.5 of the Prospectus, does not present fairly, in accordance with the measurement requirements, but not all of the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of ARF as at 31 December 2004.

##### Pro-forma Consolidated Statement of Financial Position – 31 December 2004

Based on the scope of our review, which is not an audit, nothing has come to our attention that causes us to believe that the pro-forma consolidated statement of financial position, as set out in Section 5.5 of the Prospectus, does not present fairly, in accordance with the measurement requirements, but not all of the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of ARF as at 31 December 2004, had the transactions as set in Section 5.5 of the Prospectus taken place as at 31 December 2004.

#### 5. SUBSEQUENT EVENTS

To the best of our knowledge and belief, and based on the work we have performed, as described in the scope paragraph above, there have been no material transactions or events subsequent to 31 December 2004, other than those included in Section 5.5 of the Prospectus, which would require comment on, or adjustment to, the financial information referred to therein or that would cause such information included therein to be misleading or deceptive.

#### 6. DISCLOSURES

Ernst & Young does not have any pecuniary interest that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in this matter. Ernst & Young provides advisory services to the Company, and will receive a professional fee for the preparation of this Report. Ernst & Young Transaction Advisory Services Limited will also receive a fee for the Independent Expert's Report on the Forecast Financial Information.

The Company has agreed to indemnify and hold harmless Ernst & Young, Ernst & Young Transaction Advisory Services Limited and its employees from any claims arising out of misstatement or omission in any material or information supplied by the Directors of ARF.

Consent for the inclusion of the Independent Accountant's Report in the Prospectus in the form and context in which it appears has been given. At the date of this report, this consent has not been withdrawn.

Yours faithfully

Ernst & Young

G H Meyerowitz  
Partner

14 March 2005  
 The Directors  
 Australian Renewable Fuels Limited  
 Suite 1B, Level 5  
 South Shore Piazza  
 85 The Esplanade  
 SOUTH PERTH WA 6151

The Ernst & Young Building  
 11 Mounts Bay Road  
 Perth WA 6000  
 Australia  
 GPO Box M939  
 Perth WA 6843  
 Tel: 61 8 9429 2222  
 Fax: 61 8 9429 2192



Dear Directors

## INDEPENDENT ACCOUNTANT'S REPORT ON FORECAST FINANCIAL INFORMATION

### 1. INTRODUCTION

We have prepared this Independent Accountant's Report on Forecast Financial Information (the "Report") at the request of the Directors of Australian Renewable Fuels Limited and its controlled entities ("ARF" or the "Company"). The Report has been prepared for inclusion in the prospectus to be dated on or about 14 March 2005 (the "Prospectus"), relating to the offer by ARF of 20,000,000 ordinary shares at \$1.00 each to raise a total of \$20,000,000 and the public listing of the Company.

References to defined words and terminology used in this Report have the same meaning as set out in the glossary included in Section 13 of the Prospectus.

The nature of this Report is such that it can only be given by an entity that holds an Australian Financial Services Licence under the Corporations Act. Ernst & Young Transaction Advisory Services Limited holds the appropriate Australian Financial Services Licence.

### 2. SCOPE

We have reviewed the Company's forecast statement of financial performance for the years ending 30 June 2005 and 2006 (the "Forecast"), as set out in Section 5 of the Prospectus. The Forecast has been prepared by the Directors, on the basis of their assumptions which have been summarised in Section 5.2 of the Prospectus.

The Directors are responsible for the preparation and presentation of the Forecast and the information contained therein, including the best estimate assumptions on which they are based. The Forecast has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the Forecast to which it relates for any purposes other than for which it was prepared. This Report should be read in conjunction with the whole of the Prospectus.

Our review of the best estimate assumptions underlying the Forecast was conducted in accordance with the Australian Auditing and Assurance Standard AUS 902 "Review of Financial Reports". Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary. These procedures included discussion with the Directors and management of ARF and have been undertaken to form an opinion whether anything has come to our attention which causes us to believe that:

- (i) the Directors' best estimate assumptions do not provide a reasonable basis for the Forecast;

- (ii) in all material respects the Forecast is not properly prepared on the basis of the Director's best estimate assumptions; and
- (iii) the Forecast is not presented fairly in accordance with the recognition and measurement principles prescribed in Accounting

Standards and other mandatory professional reporting requirements in Australia, and the accounting policies of ARF as disclosed in Section 5.5.1 of the Prospectus so as to present a view of ARF which is not inconsistent with our understanding of the Company's past, current and future operations.

The Forecast has been prepared by the Directors to provide investors with a guide to ARF's potential future financial performance based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the Forecast. Actual results may vary materially from those forecast and the variation may be materially positive or negative. Accordingly, investors should have regard to the risk factors set out in Section 11 of the Prospectus, and the sensitivity analysis set out in Section 5.3 of the Prospectus.

Our review of the Forecast was substantially less in scope than an audit examination conducted in accordance with Australian Auditing and Assurance Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Forecast included in the Prospectus.

### 3. STATEMENT

Based on our review of the Forecast as set out in Section 5 of the Prospectus, which is not an audit, and based on an investigation of the reasonableness of the Directors' best estimate assumptions giving rise to the forecast financial information, nothing has come to our attention which causes us to believe that:

- (i) the Directors' best estimate assumptions set out in Section 5.2 of the Prospectus, which are subject to the risks set out in Section 11 of the Prospectus, do not provide a reasonable basis for the Forecast;
- (ii) the Forecast is not properly prepared on the basis of the Directors' best estimate assumptions; and
- (iii) the Forecast is not presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting

requirements in Australia, and the accounting policies adopted by ARF as disclosed in Section 5.5.1 of the Prospectus as applied in Australia for presenting pro-forma forecasts in prospectuses and explanatory memoranda.

The underlying assumptions are subject to significant uncertainties and contingencies that are outside the control of ARF and the Directors. If events do not occur as assumed, actual results achieved by the Company may vary significantly from the Forecast.

Accordingly, we do not confirm or guarantee the achievement of the Forecast, as future events, by their very nature, are not capable of independent substantiation. Investors should have regard to the risk factors detailed in Section 11 of the Prospectus and the sensitivity analysis set out in Section 5.3 of the Prospectus.

#### 4. SUBSEQUENT EVENTS

Apart from the matters dealt with in this Report and having regard to the scope of this Report, to the best of our knowledge and belief, there have been no material transactions or events outside the ordinary business of the Company subsequent to the completion of our review of the Forecast, that have come to our attention that would require comment on, or adjustment to, the information referred to in this Report or that would cause such information to be misleading or deceptive.

#### 5. INDEPENDENCE OR DISCLOSURE OF INTEREST

Ernst & Young Transaction Advisory Services Limited does not have any interest in the outcome of the Prospectus, other than in connection with the preparation of this Report. Ernst & Young Transaction Advisory Services Limited will receive a professional fee for the preparation of this Report.

Yours faithfully  
Ernst & Young Transaction Advisory Services Limited



Ken Pendergast  
Director and Representative

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# Independent Accountant's Report on Forecast Financial Information and Financial Services Guide

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## FINANCIAL SERVICES GUIDE

### 1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Accountant's Report ("Report") in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

### 2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in the Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

### 3. Financial Services We Offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging and dealing in securities.

### 4. General Financial Product Advice

In our Report we provide general financial product advice. The advice in the Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the Report having regard to your own objectives, financial situation and needs before you act on the advice in the Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue the Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

### 5. Remuneration for our Services

We charge fees for providing the Report. These fees have been agreed with, and will be paid by, the person who engaged us to provide the Report. Our fees for the Report are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting

practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, neither Ernst & Young Transaction Advisory Services, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of the Report.

### 6. Associations with Product Issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

### 7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

### 8. Complaints Process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the Compliance and Legal Manager and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Industry Complaints Service or the Insurance Brokers Disputes Limited for general insurance product advice.

### Contacting Ernst & Young Transaction Advisory Services

Compliance and Legal Manager  
Ernst & Young  
680 George Street  
Sydney NSW 2000  
Telephone: (02) 9248 5555

### Contacting the Independent Dispute Resolution Schemes

Financial Industry Complaints Service Limited  
PO Box 579 – Collins Street West  
Melbourne VIC 8007  
Telephone: 1800 335 405

Insurance Brokers Disputes Limited  
Level 10  
99 William Street  
Melbourne VIC 3000  
Telephone: 1800 064 169

*This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572*

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Investors should be aware that an investment in the Company involves risks that may be higher than risks associated with an investment in some other companies. Careful consideration should be given to all matters raised in this Prospectus and the relative risk factors prior to applying for Shares offered for subscription under this Prospectus. Some of these risks can be mitigated by the use of appropriate safeguards and actions, but some are outside the control of the Company and cannot be mitigated. Prospective investors in the Company should consider the risk factors described in this Section, together with the information contained elsewhere in this Prospectus, before deciding whether to apply for Shares.

The following summary, which is not exhaustive, represents some of the major risk factors which potential investors need to be aware of.

### 11.1 GENERAL RISKS

Factors such as inflation, interest rates, levels of tax, taxation law and accounting practices, government legislation or intervention, natural disasters, social upheaval, and war may have an impact on prices, operating costs and market conditions generally. Accordingly, the Company's future possible revenue and operations can be affected by these factors, which are beyond the control of the Company.

General movements in local and international stock markets, and economic conditions could all affect the market price of the Shares.

#### 11.1.1 Economic Factors

Factors such as inflation, currency fluctuation, interest rates, supply and demand and industrial disruption have an impact on operating costs, Biodiesel prices and stock market prices. The Company's future possible revenues and share price can be affected by these factors, which are beyond the control of the Company and its Directors.

#### 11.1.2 Government Legislation Policy Changes

Government legislation and policies are subject to review and change from time to time. Such changes are likely to be beyond the control of the Company and may affect industry profitability.

The operation of the plants is subject to extensive environmental laws and regulations and the Company is required to obtain a licence to operate in a manner designed to promote safety and to prevent the release of hazardous substances from the plants. Violations of these requirements could result in liabilities that affect the Company's financial condition.

Revenue and expenditure of the Company may be effected by change in international, federal, state, or local government laws, regulations or policies, or in taxation legislation.

#### 11.1.3 Development and Continuity of Operations

The Company's development of Biodiesel production plants may be adversely impacted by numerous issues including, but not limited to, land access, native title and heritage and environmental legislation, industrial disputes, cost overruns, governmental approval, licencing and approval processes and

other unforeseen contingencies. Such issues could render development uneconomical, result in a need to cease development of a plant, adversely impact on the operating and financial performance of a plant or result in a need to shut down a plant.

#### 11.1.4 Insurance

The Company may, where economically practicable and available, endeavour to mitigate some project and business risks by procuring relevant insurance cover. However, such insurance cover may not always be available or economically justifiable and the policy provisions and exclusions may render a particular claim by the Company outside the scope of the insurance cover.

While the Company will undertake all reasonable due diligence in assessing the creditworthiness of its insurance providers there will remain the risk that an insurer defaults in payment of a legitimate claim by the Company under an insurance policy.

#### 11.1.5 Exchange Rate Risks

Adverse currency movements would impact upon the future profitability of ARF.

International sales revenue will be derived in Euros and potentially other international currencies. Each of the contracts with Energea for the supply of equipment are written in Euros. Each of these activities exposes the Company to exchange rate risks. For the purposes of the acquisition of equipment for the Adelaide and Picton plants the Company has entered into foreign exchange contracts equal to the Forecast cost of the equipment. At the date of the Prospectus the Company has outstanding forward contracts to purchase €4.4 million at an average rate of €0.5806 per Australian dollar. All of the forward contracts execute within 12 months of this Prospectus at the dates on which equipment supply payments are due.

### 11.2 SPECIFIC RISKS

In addition to the general risks outlined above, there is a range of specific risks associated with the Company's business operations and its involvement in the production of Biodiesel. Potential investors in the Company should note the following additional risks prior to investing.

#### 11.2.1 Intellectual Property

ARF has ordered from Energea the Biodiesel production plants, the intellectual property in which is subject to patents held by Energea. One of these patents has been challenged in Austria and there is a risk that this challenge could be upheld. If upheld aspects of the intellectual property used in the production plants will no longer be subject to patent protection, potentially making it easier for others to copy the design of the production plants. The Company does not believe this will affect its ability to utilise the process and the Company has been assured by Energea that this is the case.

ARF relies on patent, trademark and copyright law, trade secret protection and duties of confidence with third parties and its contract with Energea to protect these rights. While the Company will use all reasonable endeavours to protect its

## Risk Factors

intellectual property rights, the steps that the Company takes to protect these intellectual property rights may be inadequate. The unauthorised use or disclosure of its proprietary technology and systems may have adverse effects on the operation and financial performance of ARF.

### 11.2.2 Licence

A number of licences are required to operate each plant and a delay in obtaining these may have an adverse effect on the business. Accordingly, it cannot be said with certainty when the plants will commence production and in any event a minimum of several months may be required following completion of a plant before that plant is consistently producing Biodiesel at the desired rate and quantity.

The technology licence from Energea will cease to be exclusive if the Company has not placed an order to purchase a third plant by the end of January 2007. Whilst the Company will endeavour to achieve this requirement there is no guarantee this will be possible within the period referred to in the licence.

### 11.2.3 Design and Technology

The principal technology risk lies with the Energea plant. Presently there is one 40,000tpa plant operating with Energea technology in Austria (Zistersdorf) and a 250,000tpa plant has been purchased for a project in United Kingdom.

Other areas of technology risk have been assessed as minor as all other components of the plant consist of items that are well understood and utilised within the global manufacturing industry.

### 11.2.4 Construction Risks

#### Leighton Component

The Leighton agreement is a guaranteed maximum price contract structure, which protects ARF from a cost over run during construction by means of a guaranteed price, however there remains a risk that the completed capital cost of the project will be higher than the current estimates. In addition, although the bonus provisions of the contract provide a material incentive to Leighton to complete the project ahead of the scheduled completion date, this may not actually occur and the completion of project may take longer than forecast. The guaranteed maximum price is set approximately 11 weeks after the provision of Energea's detailed design. Leighton will be paid in instalments based on achievement of defined milestones.

In the case of the Adelaide plant the maximum price estimate was based on an alternate site at Largs Bay, therefore there is a risk that Leighton will be entitled to claim certain variations. The Picton agreement is in the final stages of negotiation therefore variations to the maximum price may also arise.

#### Energea Component

Energea has developed the technology and plant design for the production of Biodiesel using equipment they describe as a "Continuous Trans Esterification Reactor". A plant using Energea technology is operating in Austria and Energea has

orders for plants both similar in size to and larger than the ARF plants, however, none of these plants are currently operating.

Pursuant to the equipment supply agreement as set out in Section 12.1, ARF is required to make payments to Energea for the plant construction and there exists a risk that in the event of a default by Energea or its subcontractor, it may cost more than the contract sum for ARF to have the plant completed and completion may in turn be delayed.

### 11.2.5 Production Risks

The Company intends to undertake its own production. There is a risk that one or both of the plants will not be able to achieve base case performance and that without appropriate management supervision this could lead to delivery and quality control difficulties, which may result in material adverse effects on the Company. The Company intends to minimise these risks by employing suitably qualified and skilled staff, and undertake suitable staff training, to ensure production is maintained at a high standard.

The Company is still in the early stages of its development and whilst a number of key contracts (such as the construction, feedstock and Biodiesel sales contracts) have already been put in place a number of others (including infrastructure contracts relating to utilities) remain to be negotiated or are subject to certain pre-conditions. Delays or difficulties in completing detailed plant design or putting acceptable arrangements in place or satisfying any conditions precedent could result in a delay in the commencement of the operation of the plants.

As the plants are not yet operational the Company does not have a proven track record for investors to rely upon when considering an investment in the Company nor any established trading relationships with its customers or suppliers.

Although the Austrian plant which uses Energea's technology has been operating and providing European standard Biodiesel in Austria and the plant design has been reviewed by the Independent Engineer, the Australian plants have not as yet been constructed and operated and therefore there is a risk that they may not operate as intended and/or produce the quality of Biodiesel product required.

The construction and operation of the various systems comprised in the plants and the date upon which the plants become operational will depend on the Company's ability to manage the interface of the various operational systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to manage the interfacing of such systems could have a material adverse effect on the date on which the plants become operational and hence upon the Company's financial condition. The Company may also achieve earlier operational start dates than proposed in the Prospectus.

### 11.2.6 Environmental Risks

ARFA has entered into an assignment agreement pursuant to which it is taking an assignment of the lease of land on which ARFA proposes to build the Adelaide plant (see Section 12.1.8). The land is currently being leased by Castro Australia Proprietary

Ltd ("Castrol") a subsidiary of BP Australia Pty Ltd ("BP") from Land Management Corporation ("LMC"). Castrol and ARFA have commissioned a third party to conduct an environmental site audit and on receipt of this audit each of Castrol and BP must acknowledge in a form satisfactory to LMC that they will remediate the site in the manner described in the audit. There is a risk that either Castrol or BP will not accept their respective liability or that they do not provide an acknowledgement in a form satisfactory to LMC.

Notwithstanding the Adelaide and Picton plant sites are zoned to allow for the operation of plants capable of producing Biodiesel and that such operations are otherwise properly permitted and that the Company via its subsidiaries have proper procedures in place, there is a risk that in the production of Biodiesel there could be a breach of the environmental laws or permits regulatory to the production operations.

### 11.2.7 Key Personnel and Management

The Company relies on a number of key employees and consultants. There is a risk that the Company may fail to attract, retain or develop key employees or consultants and this would have a negative effect upon the development of the Company. The loss of any of these individuals could have an adverse impact on the business of ARF. In an attempt to mitigate this risk, the Company is seeking to establish a "Key Man" policy for Mr Butcher to assist in any transition phase should he become incapacitated or die. The Company has also engaged Mr Butcher's services by way of a five year consultancy agreement which commenced 1 July 2004. Either party may only terminate this contract in the event of material breach by the other party that is not adequately remedied within a specified time.

The ability of the Company to implement its strategy of growth will require effective planning and management control systems. The Company's growth plans may place a significant strain on the Company's management, operational, financial and personnel resources. Therefore the Company's future growth and prospects will depend on its ability to manage this growth and to continue to expand and improve operational, financial and management information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to expand and improve operational, financial and management information and quality control systems in line with the Company's growth could have a material adverse effect on the Company's business, financial condition and the results of operations.

The Company's success will, to a large extent, be dependent on the ability and experience of its Directors, executive management and employees. Whilst the Company does not currently envisage any difficulties in recruiting people with the necessary expertise to operate and manage the plants, its ability to recruit may, in the future, be affected by the competitive market for staff with the skills which the Company requires. Loss of key people or difficulties in recruitment may affect the Company's ability to expand and may have an adverse effect on the Company's business.

### 11.2.8 Marketing Risks

The Company intends producing Biodiesel to Australian or European standards, however some Fats preclude achieving these standards, particularly in terms of cold filter plugging point. The contract with Godiver specifically recognises this, but there is a risk that other parties purchasing the Biodiesel may not be able to accept product with these specifications.

### 11.2.9 Additional Financing Requirements

The Directors expect that the proceeds of the Offer when combined with existing cash resources and grant monies will provide sufficient capital resources to enable the Company to achieve its initial business objectives. However, the Directors can give no assurances that such objectives will in fact be met without future borrowings or further capital raisings and if such borrowings or capital raisings are required, that they can be obtained on terms favourable to the Company.

There can be no certainty that third parties will perform, or be able to perform, their obligations under various contracts with the Company or that the Company will be able to recover damages for breach of contract. The insolvency of third parties or their default under the terms of such contracts could have a material adverse effect on the Company and its operations. Significant delays in commencing the production of Biodiesel would reduce the profitability of ARF and could require further funds to be raised.

Further financing may be required to assist in the establishment of further plants. Any additional equity financing may be dilutive to the shareholders and debt financing, if available, may involve restrictions on future financing and operating activities. If the Company is unable to obtain additional financing as required it may not be possible to expand in the manner currently envisaged.

### 11.2.10 Current Competition

The Company will be operating in a market where diesel is produced from other sources. Although the Board believes that the Company's product has a number of significant advantages over diesel produced from other sources, other competitively produced Biodiesel unknown to the Company may emerge from time to time. The introduction of new competitors or a more aggressive competitive response from existing participants may affect the operating performance of the Company.

Given the potential for growth of the Biodiesel and biofuels markets, it is likely that the market for these fuels will become increasingly competitive in Europe and Australia and the Company may face significant competition, including from domestic and overseas competitors who may have greater capital and other resources than the Company. There is no assurance that the Company will be able to compete successfully in such a marketplace.

Biodiesel is seen as one of a number of renewable sources of energy and it is possible that other alternatives to diesel may be developed which compete with Biodiesel. This means that

## Risk Factors

the Company will constantly need to seek out new opportunities to provide alternative (to diesel) and biofuels in a manner which distinguishes it from its competitors and will enable it to stay at the forefront of the market. The development of new alternatives to fossil fuels could also give rise to significant new competitors, which may have a material and adverse effect on the Company's business.

### 11.2.11 Raw Material Risk

The cyclical nature of the Fat markets may lead to volatile changes in raw material prices which may adversely affect the earnings of the Company. The business may also be affected if there are any shortages of supply of the raw materials required to manufacture Biodiesel.

The Company has contracted Gardner Smith as the main provider of logistics and Fat supply in both South Australia and Western Australia. Whilst the availability of supply is a risk, the price of Fat supply also, from time to time, may be such that operating would be uneconomic.

### 11.2.12 Sales Risk

ARF has a five year exclusive contract in the European market with Godiver. Godiver has contracted to purchase a significant portion of all ARF's Biodiesel production. The Company is therefore exposed to the risk that it will need to source additional or alternative clients.

The European contract price varies with the European price for Gasoil EN590(1) (European diesel specification) and this may change in a manner adverse to the economic performance of the Company. The Directors and Company have no ability to control movements in this market place.

### 11.2.13 Operating Cost Risk

Operating costs are based on estimates by the Directors having reference to similar operations and the Company's financial modelling. Actual costs may be higher or lower. Higher costs will have an impact on the Company's results as may a variety of other factors outside of the Company's control, such as increased competition and slower than expected take-up by customers of the Company's Biodiesel product.

It is possible that, in the future, the Company's operating results will fall below the expectations of securities analysts or investors. If this occurs the trading price of the Shares may decline significantly.

### 11.2.14 Lack of Diversification Risk

The value of Shares will be dependent, among other things, on the success of the trading activities undertaken and since ARF will initially seek to produce mainly Biodiesel and glycerine by-product, it is totally dependent on the commercial success of these products. This lack of diversification increases the risks inherent in acquiring and operating in a single field.

### 11.2.15 Excessive Sales of Shares

The market price of Shares could decline significantly as a result of any sales of Shares by certain Shareholders following expiry of the escrow period.

### 11.2.16 Approval

The Company requires approvals from both Local and State Government authorities in order to construct and operate each plant. There is a risk that an authority from which an approval is required could cancel the Company's approvals or require the Company to undertake further studies, the consequence of which could be to either delay or increase the costs of an individual plant.

### 11.2.17 Government Grants

The Company has been awarded two Federal and one State Government grant and there is a risk that the Company may not comply with the terms of these grants and have to repay a portion or all of the grant monies.

One of these grants is a \$7.15m grant under the Biofuels Capital Infrastructure Grant Scheme and is for the purpose of constructing and operating a Biodiesel plant in Adelaide, South Australia. One of the conditions of the grant is that ARF produces and sells 44.7 Mtpa into the Australian transport fuel market. The first assessment of this condition is expected in November 2006 and will occur annually for the following two years.

The Forecast contained in Section 5.0 have been prepared on the basis that ARF sells up to 80% of the Biodiesel that it produces from its two plants in to the European markets. While it is the Company's intention to meet the required levels of sales to the Australian transport fuels market during the assessment period, in the event that this is not achieved, a repayment of 16 cents per litre up to the amount of grant received plus interest may be enforced. Future cashflows indicate that there will be sufficient funds from operations to make repayments if required.

### 12.1 Summary of Material Contracts

In the opinion of the Directors, the contracts summarised below together with the consultancy and employment contracts referred to in Section 12.5 are material to the terms of the Offer and the operations of the Company's business and as such are believed to be relevant to potential investors in the Company.

#### 12.1.1 Equipment Supply Agreement – Adelaide Plant

Pursuant to an agreement dated 30 July 2004 between ARFA as the client and Energea as the contractor, Energea agreed to supply, deliver and install a Biodiesel facility at Largs Bay. The agreement acknowledges that design, construction and documentation, coordination and commissioning of the Biodiesel facility on site will be the responsibility of Leighton.

The purchase price for the Biodiesel plant is payable in Euros and by instalments during the design and construction process. ARFA has arranged for Energea to be issued with letters of credit to pay these instalments as and when they fall due.

If completion of the plant is delayed then Energea is liable for liquidated damages of up to 3.5% of the contract price. Energea is providing ARFA with a performance guarantee which is capped at an amount of 2% of the contract sum.

Under the contract terms, ARFA is able to withhold 15% of the contract value until the plant has completed performance testing to its satisfaction. A further 5% of contract value is withheld by way of a defects retention for up to 12-months after completion of performance testing.

In accordance with the agreement Energea is to provide ongoing maintenance of the equipment it has supplied for 12 months from completion at no cost, with a further 12-month period to be charged at a fixed cost.

#### 12.1.2 Equipment Supply Agreement – Picton Plant

Pursuant to an agreement dated 21 January 2005 between ARFP as the client and Energea as the contractor, Energea agreed to supply, deliver and install a Biodiesel facility at Picton, Western Australia. The agreement acknowledges that design, construction and documentation, coordination and commissioning of the Biodiesel facility on site is intended to be the responsibility of Leighton once an agreement is reached with that company to do so.

The purchase price for the Biodiesel plant is payable in Euros and by instalments during the design and construction process.

If completion of the plant is delayed then Energea is liable for liquidated damages of up to 3.5% of the contract price. Energea is providing ARFP with a performance guarantee which is capped at an amount of 2% of the contract sum.

Under the contract terms, ARFP is able to withhold 15% of the contract value until the plant has completed performance testing to its satisfaction. A further 5% of contract value is withheld by way of defects retention for up to 12 months after completion of performance testing.

In accordance with the agreement Energea is to provide ongoing maintenance of the equipment it has supplied for 12

months from completion at no cost, with a further 12-month period to be charged at a fixed cost.

#### 12.1.3 Technology Exclusivity Agreement

Pursuant to the technology exclusivity agreement dated 30 July 2004 between the Company and Energea, Energea granted to the Company the exclusive right to purchase Biodiesel plants from Energea in the areas of Australia, New Zealand, Papua New Guinea, Solomon Islands and the Torres Strait Islands, subject to Energea having the right to sell one plant to another party in Australia, provided that plant is ordered by 29 July 2005.

The term of the exclusivity is until 29 July 2005 but is extended by a further 18 months on each occasion the Company orders a plant from Energea. The purchase of the Picton plant has extended the term of this exclusivity to 30 January 2007.

#### 12.1.4 Leighton Agreement – Adelaide Plant

Pursuant to an agreement dated 17 December 2004 between Leighton as the contractor and ARFA as the client, Leighton has agreed to manage the construction of the plant in Austria and to carry out the site works and installation of the plant in South Australia. The terms and conditions for the supervision of the plant construction, site works and erection are usual for contracts of this nature. ARF has arranged for Leighton to be issued with letters of credit to pay for the works under this agreement.

The agreement is a maximum price contract and includes completion warranties, a cost guarantee and a bonus structure for early below budget completion. There are three phases in the agreement structure:

- (a) provisional ceiling price (PCP) – based on preliminary engineering data (current) and scope of work assumptions provided by ARF;
- (b) guaranteed maximum price (GMP) – based on the detailed engineering data (17 weeks after commencement) and cannot exceed the PMP unless the assumptions change; and
- (c) actual final cost (AFC) – after the GMP is determined, the construction is undertaken by Leighton using "open book" costing and Leighton is able to share in any reduction from the GMP to the AFC.

Pursuant to the agreement the Adelaide plant is to be constructed by November 2005.

The PCP for the Adelaide plant was calculated on a plant location next to Largs Bay. The agreement contains a mechanism for Leighton to claim a variation if the estimated costs for Largs Bay exceed the estimate for the previous location.

Under the terms of the agreement Leighton's ability for breach or damages is capped at 15% of the contract sum. Leighton has also been granted the right to tender on other projects being promoted by the Company using Energea technology where such projects are similar to the Adelaide project.

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### 12.1.5 Feedstock Agreement – Adelaide Plant

By an agreement dated 28 February 2005 between ARFA and Gardner Smith, Gardner Smith has agreed to provide up to a maximum amount of Feedstock per month to ARFA on a cost plus basis. Gardner Smith is required to notify ARFA whether it intends to supply each order from either domestic or international sources and Gardner Smith has an obligation to supply up to the maximum quantity of Feedstock ordered from time to time.

The agreement is for a term of 5 years from the date of Gardner Smith first supplying fat under this agreement and subject to ARFA ordering a minimum quantity per month, Gardner Smith is not to provide Feedstock to other parties manufacturing Biodiesel within South Australia. Provided Gardner Smith is not in breach of its obligations, ARF agrees to obtain its source of Fat from Gardner Smith, but ARF retains the right to purchase up to 25% of its needs from other sources provided this material is not tallow.

### 12.1.6 Feedstock Agreement – Picton Plant

By an agreement dated 28 February 2005 between ARFP and Gardner Smith, Gardner Smith has agreed to provide up to a maximum amount of Feedstock per month to ARFP on a cost plus basis. Gardner Smith is required to notify ARFP whether it intends to supply each order from either domestic or international sources and Gardner Smith has an obligation to supply up to the maximum quantity of Feedstock ordered from time to time from the date of Gardner Smith first supplying fat under this agreement.

The agreement is for a term of 5 years from the date of Gardner Smith first supplying fat under this agreement and subject to ARFP ordering a minimum quantity per month, Gardner Smith is not to provide Feedstock to other parties manufacturing Biodiesel within Western Australia. Provided Gardner Smith is not in breach of its obligations, ARF agrees to obtain its source of Fat from Gardner Smith, but ARF retains the right to purchase up to 25% of its needs from other sources provided this material is not tallow.

### 12.1.7 Off-take Agreement - Godiver

Pursuant to the off-take agreement dated 2 March 2004 as varied by a deed of variation dated 13 December 2004 between the Company and Godiver, where the Company wishes to sell Biodiesel outside of Australia then Godiver has agreed to acquire up to 120,000 metric tonnes per annum of Biodiesel from 3 plants, which Biodiesel is to be acquired in certain minimum quantities. Godiver must provide the Company with a letter of credit for each Biodiesel shipment. If Godiver fails to either accept a proposed shipment or provide the letter of credit then to the extent the Company intends selling the Biodiesel outside Australia then it may do so to third parties.

The agreement is to be for a minimum period of 5 years after the first sale and the Biodiesel is sold in euros, at a price which is to be calculated by reference to an average of the Gasoil EN590(1) price quoted by reference to the Platt's European Marketscans minus shipping, freight, financing and a profit margin for Godiver and added to that amount is to be the tax payable for Gasoil EN590(1) in the country of destination at the time of payment.

### 12.1.8 Largs Bay Lease and Assignment of Lease

Pursuant to a lease dated 2 October 1991 between Minister of Marine in South Australia (now Land Management Corporation ("LMC")) and Castrol Australia Pty Limited ("Castrol"), LMC leased land at Largs Bay ("Leased Premises") to Castrol for a period of 10 years with a right to renew the period for a further 10 years. This right to renew has been exercised. By an agreement dated 21 June 2001 between South Australia Ports Corporation (now LMC) and Castrol the term of the lease was extended for a further 10 years.

The lease of land is on commercial terms and Castrol is obliged to pay rent and rates and taxes and cannot assign its interest without consent of LMC. At the end of the term of the lease there is an obligation to leave the land safe and clear to the satisfaction of LMC.

Pursuant to an assignment deed dated 17 March 2005 between Castrol as assignor, BP Australia Pty Ltd ("BP"), ARFA as assignee, LMC as landlord and ARF as guarantor, Castrol (with LMC's consent) has agreed to assign its leasehold interest in the Leased Premises to ARFA.

The parties are conducting an environmental site audit for the purpose of providing the parties with an understanding of the condition of the Leased Premises and to form the basis for the allocation of rights and obligations relating to a clean-up of the Leased Premises. It is a condition precedent to assignment that each of Castrol and BP acknowledge in a form satisfactory to LMC, their liability to carry out the remediation of the Leased Premises in the manner contemplated in the environmental site audit. The rights and obligations relating to the clean-up of the Leased Premises are summarised as follows:

- (a) where there is contamination prior to the assignment of the lease, Castrol acknowledges that it is fully liable for the contamination and undertakes to clean-up the Leased Premises at a time convenient to ARFA. Castrol will indemnify ARFA against all loss arising from contamination for which Castrol acknowledges full liability but for which ARFA becomes liable;
- (b) if the audit determines there is contamination, Castrol acknowledges it is fully liable for the contamination and undertakes to clean-up the Leased Premises in its role as remediator at a time convenient to ARFA;
- (c) BP will remediate the Leased Premises of any hydrocarbon plumes which are deemed to be caused by it ("Excluded Contamination"); and
- (d) ARFA will be responsible for any other contamination on the Leased Premises arising from its activities after the date of assignment of the lease ("Assignment Date").

Castrol agrees, prior to the Assignment Date, to relocate its staff and place of business to the nearby BP terminal, with the reasonable costs of such relocation to be borne by ARFA. Further, where possible, Castrol is to assign ownership of its fixtures to ARFA, at no additional cost.

Castrol also agrees, prior to the Assignment Date, to maintain the Leased Premises in its existing condition, such maintenance work to commence, after consultation with the ARFA as to whether the scope of maintenance work is capable of meeting the ARFA's objectives. Castrol will, at its own cost, provide ARFA with all available drawings and maintenance records for the Leased Premises.

Castrol and ARFA agree to co-operate with each other to ensure that each party's use of the Leased Premises will not adversely affect the other party, where they are sharing the use of the Leased Premises prior to the Assignment Date. Each of them agrees to indemnify the other against all loss or damage each may cause to the other arising out of or in connection with its use of the Leased Premises before the Assignment Date.

Prior to the Assignment Date, LMC will allow ARFA to commence earthworks and plant construction on the Leased Premises.

In consideration for LMC consenting to the assignment of the lease, ARFA must provide a performance bond of \$250,000 and ARF must guarantee to LMC the due and punctual payment by ARFA to Castrol of all amounts payable by ARFA under the lease and the due compliance by ARFA with all ARFA's other obligations under the lease. ARF also separately undertakes to indemnify LMC against all loss incurred or suffered by LMC arising from or in connection with any breach of the lease by ARFA.

The assignment of the lease is subject to and conditional upon the achievement of the following conditions precedent:

- (a) receipt by ARFA and LMC of the environmental auditor's environmental site audit report, should the Leased Premises not contain any contamination; or
- (b) should the report indicate that the Leased Premises contains contamination, a certificate from Castrol certifying the clean-up has been carried out strictly in accordance with the remediation plan;
- (c) execution by ARFA and Castrol of an asset transfer agreement effecting the transfer of Castrol's fixtures to ARFA in accordance with the assignment deed; and
- (d) execution of a short term sublease by Castrol and ARFA granting Castrol occupation rights over the administration building on the leased premises on and from the Assignment Date.

### 12.1.9 Bunbury Port Storage Letter of Intent

Pursuant to a letter of intent between ARF and the Bunbury Port Authority dated 19 November 2004, the Bunbury Port Authority intends, subject to agreement with ARF and funds being available, to provide approximately 7,500 cubic metres of storage at the port of Bunbury. The letter of intent notes that the Bunbury Port Authority can assure ARF that approximately 1-2 hectares of land is available for lease to establish the storage facility and that currently there are surplus storage tanks available for relocation.

### 12.1.10 Facility and Security Documents

Pursuant to a facility agreement dated 16 January 2005 between Amadeus as lender, ARFA as borrower and the Company as guarantor, ARFA obtained a facility of \$7,500,000 from Amadeus for the purposes of funding or providing credit support for the construction of the Adelaide plant. Amadeus is to provide a cash facility of up to \$6,500,000 and a facility of up to \$1,000,000 for capitalised interest and costs. The facility is to be secured and is repayable either out of the proceeds of this Offer or failing this Offer being successful, in quarterly instalments commencing 31 October 2005 and is to accrue interest and is otherwise on normal commercial terms for a facility of this nature.

The Company has guaranteed ARFA's performance under the facility. In addition, each of the Company and ARFA has provided security to Amadeus with respect to the facility. The forms of security being or to be provided to Amadeus are as follows:

- (a) deed of fixed and floating charge dated 16 January 2005 between the Company as chargor and Amadeus;
- (b) share mortgage between the Company as mortgagor and Amadeus and pursuant to which the Company's shareholding in ARFA is charged to Amadeus;
- (c) deed of fixed and floating charge between ARFA as chargor and Amadeus;
- (d) various side deeds between either ARFA or the Company, Amadeus and Godiver, Gardner Smith, Leighton or LMC; and
- (e) mortgage of the lease between ARFA and LMC in favour of Amadeus.

Each of the securities referred to above are or will be on normal commercial terms for securities of that nature.

### 12.1.11 Convertible Note Deeds

The Company has entered into a series of Convertible Note Deeds with third party investors pursuant to which the Company has issued 16,000 Convertible Notes at an issue price of \$1,000 per note. These notes are non-interest bearing, save where they do not convert to Shares by 31 December 2005. Conversion to Shares must occur on ARF receiving a conditional offer to be admitted to the Official List, which offer is to be on conditions acceptable to ARF.

If the Convertible Notes convert as a result of this Offer closing fully subscribed and the ASX agreeing to admit ARF to the Official List on conditions satisfactory to ARF then the Convertible Note holders will be issued 24,000,000 Shares.

The Convertible Notes do not carry any voting rights but are issued subject to a second ranking deed of charge dated 1 December 2004 and entered into between ARF and Forrest Equities Pty Ltd as the security trustee. The deed of charge ranks behind the deed of fixed and floating charge referred to in Section 12.1.10. This deed of charge is on normal commercial terms for a security of that nature.

For the purposes of ensuring that the security is held for the benefit of all Convertible Note holders, ARF and Forrest Equities Pty Ltd are parties to a security trust deed dated

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1 December 2004 and each of the Convertible Note holders are joined as parties via deeds of accession. The security trust deed acknowledges that Forrest Equities Pty Ltd is holding the security on trust for the Convertible Note holders and regulates the manner in which Forrest Equities Pty Ltd is to act for the benefit of all Convertible Note holders.

### 12.1.12 Biodiesel Deed

Pursuant to a deed dated 4 November 2002 between the Company as payer, Amadeus and Shelly Nominees as payee, the Company agreed to pay Shelly Nominees a fee of AUD2 cents per litre for any Biodiesel produced at any plant in which the Company had a beneficial interest. The fee is payable quarterly. Pursuant to the share sale agreement referred to in Section 12.1.13, Shelly Nominees will become a 100% owned subsidiary of ARF.

### 12.1.13 Share Sale Agreement

Pursuant to the share sale agreement dated 10 January 2005 as varied by two deeds of variation dated 3 and 9 March 2005 between Butcher as the vendor and the Company as purchaser, Butcher has agreed to sell all of his shareholding in Shelly Nominees for:

- (a) 12,600,000 Shares; and
- (b) \$3,000,000 payable as to:
  - (i) \$1,000,000 on first quotation of Shares on ASX;
  - (ii) \$1,000,000 on sale of 1,000 tonnes of Biodiesel from the Adelaide plant; and
  - (iii) \$1,000,000 on sale of 1,000 tonnes of Biodiesel from the Picton plant;

and Butcher has agreed to provide warranties to the Company which are typical for a transaction of this nature. The Company has covenanted in favour of Butcher that it will construct and commission the Largs Bay (Adelaide) and Picton plants by 30 June 2007.

The Shares issued to Butcher are to be subject to a 24 month trading restriction. This restriction is to be either that imposed by the ASX or where the ASX does not impose a restriction for any or all of the 24 months, then by a voluntary escrow arrangement between the Company and Butcher. The agreement is subject to the Company being granted conditional permission to be admitted to the Official List on terms acceptable to the Company by 31 December 2005.

### 12.1.14 Biodiesel Research Program Agreement

By a letter agreement dated 2 March 2005 between the Minister for Agriculture, Food & Fisheries, acting through South Australian Research and Development Institute ("SARDI") and ARF, the parties have agreed to participate in a programme to develop plant varieties from which to extract "industrial grade" oil suitable for processing into Biodiesel. The agreement is for 5 years with options to renew.

SARDI will select breeding lines and undertake a breeding programme to develop new commercial varieties suitable for

industrial grade oil production. The agreement is subject to:

- (a) SARDI being able to source initial breeding lines from Agriculture Victoria Services ("AVS"). SARDI will also undertake bio-prospecting for other germplasm sources to determine whether they may be suitable for Biodiesel production.
- (b) SARDI with the support of the Company, obtaining additional funding; and
- (c) the Company successfully raising the funds the subject of the Offer.

During the 5 year period ARF has agreed to fund a plant breeder programme at SARDI focussing on Biodiesel production varieties. SARDI will provide research infrastructure and in-kind support from researchers for part of the agronomic trials. SARDI will retain the intellectual property in the seed. At the end of 5 years and depending on the results achieved the parties will negotiate an extension of the term for a further period. At this time ARF will agree to a further research commitment, at least 75% of which will be paid to SARDI. This commitment will be a percentage of the value of production from the research project, linked to current oil price. ARF will establish a separate company to manage this.

ARF will be granted exclusive rights to enter into a licence enabling it to use the new plant varieties for Biodiesel production in Australia. Initially the agreement will be for 5 years with successive options to renew the term.

ARF undertakes to carry out seed multiplication and to manage "closed loop" contracts with growers to supply commercial oilseed for Biodiesel production.

It is anticipated that it will take about 8 years before the first commercial varieties have been developed and therefore royalties will not flow until year 8 onwards. Thereafter an end-point royalty of \$2.00 per tonne produced will be paid.

### 12.1.15 Dairy Assistance Programme Funding

Pursuant to the terms of the letter of grant dated 23 April 2003 and as confirmed by a further letter dated 8 March 2005 from the Commonwealth of Australia as represented by the Department of Transport and Regional Services ("DOTARS") to the Company, the Commonwealth has agreed to provide to the Company up to \$531,080 of funding pursuant to the Dairy Regional Assistance Programme. The funds are to be used to assist in the construction costs of the Picton plant.

The terms of the grant are such that DOTARS and the Company must enter into an agreement pursuant to which the Company must match the Commonwealth's expenditure and in certain circumstances the Company must either repay the amount of the grant or a portion of it. In addition, the Commonwealth obtains the rights of ownership to certain assets on which the grant funds are applied. The grant funds must only be used for the purposes for which they have been granted and the Company is required to provide timely reporting to the Commonwealth in relation to the expenditure of funds and the assets acquired.

### 12.1.16 Biofuels Capital Infrastructure Grant

On 6 July 2004 ARF was awarded a grant of up to \$7,146,720 under the Commonwealth of Australia's Biofuels Capital Grants Program. The grant requires ARF to produce an average of 44.7 Mlpa of Biodiesel for 3 years for the Australian transport fuel market, from its plant in Adelaide, South Australia.

The Biofuels Capital Infrastructure Grant is subject to the execution of a funding agreement between ARF and the Commonwealth of Australia. The terms of the grant may vary in negotiating the final funding agreement.

The grant is payable as follows:

- (a) 25% (\$1,786,680) on commencement of construction;
- (b) 25% (\$1,786,680) on commissioning of the Adelaide plant; and
- (c) 50% (\$3,573,360) on first commercial sale into the domestic transport fuel market.

In addition to the more usual events of default, the grant is repayable in the event that:

- (a) construction does not proceed or the plant is not commissioned;
- (b) the plant closes within 3 years of commissioning; or
- (c) the plant does not produce the 44.7 Mlpa for the Australian transport fuel market during the first three years of operations.

Any shortfall in producing the 44.7 Mlpa can be made up from the proposed Biodiesel plant in Picton, Western Australia.

Feedstock must be from renewable sources of biomass waste products, and the Biodiesel must meet the Australian fuel standards.

### 12.1.17 South West Development Commission Sale Agreement

Pursuant to an agreement which was assessed for stamp duty on 14 October 2004, the South West Development Commission agreed to sell a parcel of land at Giorgi Road, East Picton, Western Australia to ARF for \$650,000 exclusive of GST. The land is subject to conditions set down by the Western Australian Planning Commission. These conditions are not considered onerous or unusual given the development proposed. The South West Industry Assistance Scheme described in Section 12.1.18 provides an interest free loan of up to \$650,000 for the purposes of acquiring the land at Giorgi Road, East Picton, Western Australia. The loan converts to a grant as milestones are met.

### 12.1.18 South West Industry Assistance Scheme ("SWIAS")

The South West Industry Assistance Scheme which was accepted by the company on 7 March 2003 provides an interest free loan of up to \$650,000 for the purposes of acquiring land at Giorgi Road, East Picton, Western Australia. The loan converts to a grant at the following milestones:

1. Conversion of \$250,000 after 12 months of receiving the loan provided:
  - (i) Construction of the Picton plant is completed;
  - (ii) The Picton plant is operating and there are not less than 10 full-time equivalent employees at the plant; and
  - (iii) Demonstration of indirect employment of at least 30 full-time equivalent employees as a result of constructing the Picton plant.
2. Conversion of \$100,000 after each 12 month period for the next 4 years provided the Picton plant continues to employ not less than 10 full time equivalent employees for the previous 12 months.

### 12.1.19 Underwriting Agreement

Pursuant to an Underwriting Agreement between ARF and Shaw ("Underwriter") dated 21 March 2005, the Underwriter will exclusively arrange and manage the Offer and underwrite the subscription of the Shares under the Offer on the terms of the Underwriting Agreement.

If all the obligations required of ARF pursuant to the Underwriting Agreement are satisfied and the Underwriter is not otherwise entitled to terminate the Underwriting Agreement, the Underwriter must, within 10 business days after the closing date of the Offer, lodge with ARF applications for the Shares comprising the shortfall of Shares not taken up under the Offer. This is subject to ARF first having referred to the Underwriter any applications which were not accepted by ARF as valid applications, and the Underwriter being given the opportunity to re-lodge any of those applications following correction of any invalid applications.

ARF must pay the Underwriter a commission equal to 5% of the aggregate funds raised under the Offer plus a management fee equal to 1% of the aggregate funds raised under the Offer. In addition, ARF must pay or reimburse the Underwriter for all costs incurred by the Underwriter in connection with the Offer, including legal fees and disbursements and any fees incurred as a result of any investigation, enquiry, claim or proceedings conducted by ASX or applicable government body. The Underwriter's legal fees (exclusive of GST).

ARF must ensure that all necessary due diligence investigations are carried out and permit the Underwriter or any of its representatives, full access to all material information. ARF must also ensure that the Prospectus complies with all relevant laws, ARF's constitution and the Listing Rules of the ASX. In the event that the Offer at any time constitutes a breach of section 728 of the Corporations Act, ARF must promptly prepare a supplementary or replacement prospectus approved by the Underwriter and within the time reasonably required by the Underwriter.

ARF must not reject any valid application for Shares under the Offer without the consent of the Underwriter and, where an application is not valid, ARF must use its best endeavours to have corrected and make valid those invalid applications.

The Underwriter may terminate its obligations under the Underwriting Agreement by notice on or before the allotment

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- of all the Shares in a number of circumstances including if:
- official quotation has not been granted by ASX (or if granted is subsequently withdrawn, withheld or qualified);
  - the agreed timetable for the Opening Date, the Closing Date and announcements for the Offer is delayed for more than 3 business days;
  - the ASX 200 falls at any time to a level which is more than 10% below the ASX 200 index's level at the close of business on the business day prior to this Underwriting Agreement;
  - ARF materially defaults under the Underwriting Agreement;
  - if ARF fails to lodge the Prospectus on or before the lodgement cut off date of 21 March 2005;
  - there are any material deficiencies in the Prospectus;
  - ASIC intervenes in relation to the Prospectus (pursuant to specified sections of the Corporations Act; or
  - any international or national, financial or economic change that has or is likely to have a material adverse effect on the prospectus of the Offer.

### 12.2 Company Tax Status

The Directors expect the Company will be taxed in Australia as a public company.

### 12.3 Foreign Exchange Contracts

The Company has entered into foreign exchange contracts with HSBC Bank Plc in order to acquire Euros to the value of its Energea equipment supply contracts for Adelaide and Picton.

At the date of the Prospectus the Company has outstanding forward contracts to purchase €4.4 million at an average rate of €0.5806 per Australian dollar. All of the forward contracts execute within 12 months of this Prospectus at the dates on which equipment supply payments are due.

### 12.4 Litigation

The Company is not involved in any material litigation or arbitration proceedings, nor, so far as the Directors are aware, are any such proceedings pending or threatened against the Company.

### 12.5 Interests of Directors

#### Directors' Shareholdings

At the date of this Prospectus the relevant interest of each of the Directors in the Shares are as follows:

Directors	Associates	No. of Shares
Mr Darryl Butcher <sup>1</sup>	-	12,600,000
Mr Glyn Denison <sup>2</sup>	-	342,667
Mr Graham Scott <sup>3</sup>	-	-
Mr Robert Scott <sup>4</sup>	-	-
Mr Geoffrey Towner <sup>4</sup>	-	-

Notes:

<sup>1</sup> Although not entitled to them at the date of this Prospectus, Mr Butcher will be issued 12.6 million Shares in the circumstances referred to in the agreement described in Section 12.1.13.

<sup>2</sup> Mr Denison has an interest in an option to acquire 1% of Amadeus' shareholding in ARF (342,667 Shares). The option is valid for 2 years from 1 January 2005.

<sup>3</sup> Mr Graham Scott is a director of SANT which holds

17.13 million Shares in ARF.

<sup>4</sup> Mr Robert Scott and Mr Geoffrey Towner are directors of Amadeus which holds 34.27 million Shares. Mr Scott and Mr Towner also hold interests directly and indirectly in Amadeus.

#### Directors' Remuneration

The Company has approved a pool of Non Executive Directors fees of \$300,000 per annum. To date no fees have been paid or provided for.

In addition to the Non Executive Directors' fees disclosed above, the following executive remuneration arrangements have been entered into.

#### Consultancy Agreement – NeoProTec Pty Ltd and Mr Darryl Butcher

By an agreement entered into between the Company, NeoProTec Pty Ltd and Mr Darryl Butcher, it has been agreed that the Company will pay a total of \$250,000 (plus GST) for NeoProTec Pty Ltd to provide the services of Mr Darryl Butcher to the Company's business.

The term commenced on 1 July 2004 and is for a period of 5 years. In all other respects the agreement is on usual terms.

#### Consultancy Agreement – IBDC and Glyn Denison

By an agreement dated 3 May 2004 entered into between the Company and IBDC, it has been agreed that the Company will pay a total of \$5,100 (plus GST) per month for IBDC to provide the services of Mr Glyn Denison to the Company's business. This fee provides for Mr Glyn Denison to provide services for one day per week, additional days will be charged at \$1,200 per day (plus GST). The agreement commenced on 2 February 2004 and was for a period of 12 months. The engagement continues on a month by month basis. In all other respects the agreement is on usual terms.

#### Interests of Directors

Other than as set out above or elsewhere in this Prospectus, no Director has, or had within two years before lodgement of this Prospectus with the ASIC, any interest in:

- the promotion or formation of the Company;
- the property acquired or proposed to be acquired by the Company in connection with its promotion or formation or the Offer; or
- the Offer.

Except as set out above, no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any Director:

- to induce them to become, or to qualify them as, a Director; or
- for services rendered by them in connection with the formation or promotion of the Company or the Offer.

### 12.6 Interests of Persons Named

Other than as set out below or elsewhere in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, promoter or broker to the Company has, or had within two years before lodgement

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## Additional Information

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of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the Offer; or
- (c) the Offer,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of those persons for services rendered by him in connection with the formation or promotion of the Company or the Offer.

Blakiston & Crabb have acted as solicitors to the Company in providing general advice in relation to this Prospectus. In respect of Blakiston & Crabb's work, the Company has paid or will pay approximately \$80,000 for these services. Blakiston & Crabb has received the sum of \$130,000 for other professional services provided to the Company in the last two years.

Austrian Biofuels Institute will receive professional fees of approximately \$8,000 for the provision of the Independent Review of the European Biodiesel Market.

ProAnd Associates Australia Pty Ltd will receive professional fees of approximately \$60,000 for the provision of the Independent Review of the Feedstock Market.

Parsons Brinkerhoff Limited will receive professional fees of approximately \$20,000 for the provision of the Independent Engineer's Report on Energea Technology.

Ernst & Young will receive professional fees of approximately \$10,000 for the provision of the Independent Accountant's Report on Consolidated Historical and Pro-forma Financial Information.

Ernst & Young Transaction Advisory Services Limited will receive professional fees of approximately \$40,000 for the provision of the Independent Report on Forecast Financial Information.

Shaw will receive a total commission of 5% of the funds raised by this Offer and a management fee of 1% of the funds raised by this offer for acting as the Underwriter to the issue as set out in Sections 2.6 and 12.1.

The amounts disclosed above are exclusive of any amount of goods and services tax payable by the Company in respect of those amounts.

### 12.7 Employee Share Option Plan

The Company has adopted the Australian Renewable Fuels Limited Employee Share Option Plan ("Plan") for the purpose of recognising the ongoing ability of, and providing incentive to, employees of the Company. A summary of full terms and conditions of the Plan is set out below:

- (a) Under the Plan the Company may offer options to subscribe for Shares in the Company to Eligible Persons. Directors and part-time or full-time employees of the Company are "Eligible Persons" for the purposes of the Plan. Eligible Persons may nominate a nominee to hold options in their place.

- (b) The Board may determine that an Eligible Person is entitled to participate in the Plan and the extent of that entitlement after consideration of specified matters.
- (c) Options offered under the Plan are to be offered on such terms as the Board determines and the offer must set out specified information including the number of options, the period of the offer and calculation of the exercise price. The exercise is to be determined by the Board with reference to the market value of the Shares at the time of resolving to offer the options. Eligible Persons may accept the whole or a lesser number of the options offered to them.
- (d) No consideration is payable for the grant of the options unless the Board decides otherwise and the Company will not apply for official quotation of the options.
- (e) The options are not transferable except to the options holder's personal representative in the event of the death of the holder of the options.
- (f) The options may be exercised in whole or part by notice to the Company accompanied by payment of the required exercise price. Within 10 business days of exercise the Board must issue the required number of Shares, which will rank pari passu with previously issued Shares.
- (g) The options may be exercised prior to the expiry date determined by the Board prior to the offer of the relevant options but no longer than 5 years from the date of grant of the options. Any options not exercised by that time will lapse.
- (h) Notwithstanding the terms of the options, the options may be exercised in the event of specified occurrences including a change of control allowing replacement of all or a majority of the Board or during the period of a takeover bid for the Company.
- (i) Unless the Board determines otherwise, if an Eligible Person ceases to be an Eligible Person prior to the earliest date for exercise of their options for any other reason other than a "Specified Reason" (being retirement at age 60 or over, permanent disability, redundancy or death), the options held by them or their nominee will automatically lapse. If an Eligible Person ceases to be an Eligible Person prior to the earliest date for exercise of their options because of a Specified Reason, the Board may, in its absolute discretion, waive or vary any conditions of exercise in regard to the options held by that Eligible Person, in which case that Eligible Person or their nominee will have 3 months or such longer period as the Board determines to exercise their options. If an Eligible Person ceases to be an Eligible Person after the earliest date for exercise of their options for any other reason other than a Specified Reason, such Eligible Person or their nominee will have 1 month to exercise their options or such longer period as the Board determines. If an Eligible Person ceases to be an Eligible Person after the earliest date for exercise of their options because of a Specified Reason, such Eligible Person or their nominee is entitled to exercise any such option at any time prior to the expiry date of such option.
- (j) Option holders may only participate in new issues of securities if an option has been exercised and Shares allotted before the record date for determining entitlements to the new issue. If there is a bonus issue the number of Shares over which the options are exercisable will be increased by the number of Shares the option holder would have received if the option had been exercised before the record date of the bonus issue. If there is a pro-rata issue (other than a bonus

## Additional Information

issue), the exercise price of the options will be adjusted in the manner provided for in the Listing Rules. If there is a reorganisation of capital the options will be reorganised in the manner provided for in the Listing Rules.

- (k) The Company shall not offer options under the Plan if the total number of Shares the subject of the options to be offered will exceed 5% of the total number of issued Shares of that class when aggregated with:
- (i) the number of Shares which would be issued were each outstanding offer or option, being an offer made or option acquired pursuant to the Plan or any other employee share scheme extended only to employees or Directors, exercised; and
  - (ii) the number of Shares issued during the previous 5 years pursuant to the Plan or any other employee share scheme extended only to employees or Directors, but disregarding any offer made, option acquired or Share issued by way of or as a result of an offer under the Plan to a person situated outside Australia; or an offer under the Plan that did not need disclosure to investors because of section 708 of the Corporations Act; or an offer made under a disclosure document.
- (l) The rules of the Plan do not form part of any contract of employment of the option holder and the holder has no rights of compensation or damages as a result of termination of his or her employment so far as those rights arise from the holder ceasing to have rights under the Plan.
- (m) The Plan is administered by the Board which has the power to determine procedures for administration of the Plan and resolve questions of fact or interpretation of the Plan. The Board may also alter, delete or add to the rules of the Plan at any time, subject to the Listing Rules.

### 12.8 Rights Attaching to Shares

There is only one class of share on issue in the Company being fully paid ordinary shares. The rights attaching to Shares are:

- (a) set out in the constitution of the Company; and
- (b) in certain circumstances, regulated by the Corporations Act, the Listing Rules, the SCH Business Rules and the general law.

The following is a broad summary of the rights, privileges and restrictions attaching to all Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders.

All Shares issued pursuant to this Prospectus will from the time they are issued, rank *pari passu* with all the Company's existing Shares.

#### Voting

Subject to any restriction on voting imposed due to a breach of the Listing Rules relating to restricted shares or any escrow agreement entered into by the Company and a member, every holder of Shares present in person or by proxy, attorney or representative at a meeting of Shareholders has one vote on a vote taken by a show of hands, and, on a poll every holder of Shares who is present in person or by proxy, attorney or representative has one vote for every Share held by him or her, but, in respect of partly paid shares, shall have a fraction of a

vote for each partly paid share.

A poll may be demanded before a vote is taken, or before or immediately after the declaration of the result of the show of hands by the chairperson of the meeting, by at least five Shareholders present in person or by proxy, attorney or representative, or by any one or more Shareholders who are together entitled to not less than five percent of the total voting rights of all those Shareholders having the right to vote on the resolution.

#### Dividends

Dividends are payable out of the Company's profits and are declared by the Directors. Dividends declared will (subject to the rights of any preference Shareholders and to the right of the holders of any shares created or raised under any special arrangement as to dividend) be payable on the Shares in accordance with the Corporations Act.

#### Transfer of Shares

A Shareholder may transfer Shares by a market transfer in accordance with any computerised or electronic system established or recognised by ASX or the Corporations Act for the purpose of facilitating transfers in shares or by an instrument in writing in a form approved by ASX or in any other usual form or in any form approved by the Directors.

The Directors may refuse to register any transfer of Shares, other than a market transfer, where permitted by the Listing Rules or the SCH Business Rules. The Company must comply with such obligations as may be imposed on it by the Listing Rules and where appropriate the SCH Business Rules in connection with any market transfer and may not prevent, delay or in any way interfere with the registration of a market transfer where to do so would be contrary to the provisions of any of the Listing Rules or the SCH Business Rules.

#### Meetings and Notice

Each Shareholder is entitled to receive notice of and to attend general meetings for the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the constitution of the Company, the Corporations Act or the Listing Rules.

#### Winding Up

The Company has only issued one class of shares, which all rank equally in the event of liquidation. A liquidator may, with the authority of a special resolution of Shareholders divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders. The liquidator can with the sanction of a special resolution of the Shareholders vest the whole or any part of the assets in trust for the benefit of Shareholders as the liquidator thinks fit, but no Shareholder of the Company can be compelled to accept any Shares or other shares in respect of which there is any liability.

#### Shareholder Liability

As the Shares under the Prospectus are fully paid shares, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

### Alteration to the Constitution

The constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. At least 28 days' written notice specifying the intention to propose the resolution as a special resolution must be given.

### ASX Listing Rules

If the Company is admitted to the Official List, notwithstanding anything in the constitution of the Company, if the Listing Rules prohibit an act being done, the act must not be done. Nothing in the constitution prevents an act being done that the Listing Rules require to be done. If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the Listing Rules require the constitution to contain a provision or not to contain a provision the constitution is deemed to contain that provision or not to contain that provision (as the case may be). If a provision of the constitution is or becomes inconsistent with the Listing Rules, the constitution is deemed not to contain that provision to the extent of the inconsistency.

### 12.9 Consents

Each of the parties referred to in this Section 12.9:

- (a) does not make, or purport to make, any statement in this Prospectus or on which a statement made in this Prospectus is based, other than as specified in this Section 12.9; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this Section 12.9.

Austrian Biofuels Institute has given its written consent to the inclusion in this Prospectus of its Independent Review of the European Biodiesel Market and the graph included in Section 4.3 in the form and context in which they are included and has not withdrawn such consent before lodgement of this Prospectus with the ASIC.

ProAnd Associates Australia Pty Ltd has given its written consent to the inclusion in this Prospectus of its Independent Review of the Feedstock Market and to all statements referring to that report in the form and context in which they are included and has not withdrawn such consent before lodgement of this Prospectus with the ASIC.

Parsons Brinkerhoff Limited has given its written consent to the inclusion in this Prospectus of its Independent Engineers' Report on Energea Technology and to all statements referring to that report in the form and context in which they are included and has not withdrawn such consent before lodgement of this Prospectus with the ASIC.

Ernst & Young has given its written consent to the inclusion in this Prospectus of its Independent Accountant's Report on Consolidated Historical and Pro-forma Financial Information to all statements referring to that report in the form and context in which they are included and has not withdrawn such consent before lodgement of this Prospectus with the ASIC.

Ernst & Young Transaction Advisory Services Limited has given its written consent to the inclusion in this Prospectus of its Independent Review on Forecast Financial Information to all

statements referring to that report in the form and context in which they are included and has not withdrawn such consent before lodgement of this Prospectus with the ASIC.

Energea Umwelttechnologie GmbH has given its written consent to the inclusion in this Prospectus to all statements attributed to it in the Independent Engineers' Report on Energea Technology, the first sentence of paragraph 5 of Section 4.4, paragraph 6 of Section 4.4 and Section 11.2.1 in the form in which they are included and has not withdrawn such consent before lodgement of this Prospectus with the ASIC.

Each of the following has consented to being named in the Prospectus in the capacity as noted below and have not withdrawn such consent prior to the lodgement of this Prospectus with the ASIC:

- (a) Austrian Biofuels Institute, as the Independent Biodiesel Market Researchers;
- (b) ProAnd Associates Australia Pty Ltd, as the Independent Feedstock Market Researchers;
- (c) Parsons Brinkerhoff Limited, as the Independent Engineers;
- (d) Ernst & Young as the Company's Independent Accountants on Consolidated Historical and Pro-forma Financial Information;
- (e) Ernst & Young Transaction Advisory Services Limited as the Company's Independent Accountant on forecast Financial Information;
- (f) Horwaths as the Auditor of ARF;
- (g) SHAW Stockbroking Limited as Underwriter to the Offer;
- (h) Blakiston & Crabb as the Solicitors to ARF;
- (i) Computershare Investor Services Pty Ltd, as the Share Registry to ARF; and
- (j) Energea Umwelttechnologie GmbH as provider of the Energea technology.

There are a number of persons referred to elsewhere in this Prospectus who are not experts and who have not made statements included in this Prospectus nor are there any statements made in this Prospectus on the basis of any statements made by those persons. These persons did not consent to being named in this Prospectus and did not authorise or cause the issue of this Prospectus.

### 12.10 Taxation

The acquisition and disposal of Shares will have tax consequences, which will differ depending on the individual financial affairs of each Share or option holder. All potential investors in ARF are urged to take independent financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally.

To the maximum extent permitted by law, ARF, its officers and each of their respective advisers accept no liability or responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.

### 12.11 Expenses of the Offer

Assuming full subscription, it is estimated that approximately \$1.93m will have been paid or is payable by the Company in respect of broker, legal, accounting, corporate advisory, experts' fees, printing, ASIC and ASX fees, and other costs arising from this Prospectus and the Offer.

### 12.12 Electronic Prospectus

Pursuant to Class Order 00/44 the ASIC has exempted

## Additional Information

compliance with certain provisions of the Corporations Act to allow distribution of an Electronic Prospectus on the basis of a paper Prospectus lodged with the ASIC and the issue of Shares in response to an electronic Application Form, subject to compliance with certain provisions.

If you have received this Prospectus as an Electronic Prospectus please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact the Company at email: [info@arfuels.com.au](mailto:info@arfuels.com.au) or telephone (61 8) 9363 3500 and ARF will send to you free, either a hard copy or a further electronic copy of the Prospectus or both.

ARF reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the Electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered. In such a case, the Application monies received will be dealt with in accordance with section 722 of the Corporations Act.

### 12.13 Issue of Shares upon conversion of Convertible Notes

This Prospectus also relates to the issue of 24,000,000 Shares issued pursuant to the conversion of the Convertible Notes (as referred to under the heading "Convertible Note Deeds" in the material contract section in Section 12.1 of this Prospectus) to a number of third party investors.

An application for Shares by holders of Convertible Notes can be made on the separate green looseleaf Application Form accompanying this Prospectus entitled "Convertible Note Holder Application Form". No consideration is payable by the Convertible Note holders with the Convertible Note holder Application Form.

The completed Convertible Note holder Application Form is to be lodged prior to the Closing Date for the Public Offer at the Company's registered office:

Suite 1B, Level 5, South Shore Piazza,  
85 South Perth Esplanade,  
SOUTH PERTH WA 6151

PO Box 837  
SOUTH PERTH WA 6951

By lodging the Convertible Note holder Application Form, the relevant Convertible Note holder agrees with the Company that, upon issue and allotment of Shares, the Company will have satisfied its obligation to issue shares under the Convertible Note Deed.

### 12.14 Issue of Shares to acquire Shelly Nominees

This Prospectus also relates to the issue of 12,600,000 Shares to Darryl Butcher pursuant to the terms of the Share Sale Agreement referred to in Section 12.1.13. An application for Shares for Darryl Butcher can be made on the separate blue loose-leaf Application Form accompanying the Prospectus entitled "Vendor Application Form". No consideration is payable by Darryl Butcher with the Vendor Application Form. The

completed Vendor Application Form is to be lodged prior to the Closing Date for the Public Offer in the Company's registered office:

Suite 1B, Level 5, South Shore Piazza  
85 South Perth Esplanade  
SOUTH PERTH WA 6151

PO Box 837  
SOUTH PERTH WA 6951

By lodging the Vendor Application Form, Darryl Butcher agrees with the Company that, upon issue and allotment of Shares, the Company will have satisfied its obligations to issue Shares under the Share Sale Agreement.

### 12.15 Directors' Statement

The Directors state that they have made all reasonable enquiries and on that basis have reasonable grounds to believe that any statements made by the Directors in this Prospectus are not misleading or deceptive and that in respect to any other statements made in the Prospectus by persons other than Directors, the Directors have made reasonable enquiries and on that basis have reasonable grounds to believe that persons making the statement or statements were competent to make such statements, those persons have given their consent to the statements being included in this Prospectus in the form and context in which they are included and have not withdrawn that consent before lodgement of this Prospectus with the ASIC, or to the Directors knowledge, before any issue of Shares pursuant to this Prospectus.

The Prospectus is prepared on the basis that certain matters may be reasonably expected to be known to likely investors or their professional advisers.

Each Director has consented to the lodgement of this Prospectus with the ASIC and has not withdrawn that consent.

Dated 21 March 2005  
Signed for and on behalf of the Company



Darryl Butcher  
Managing Director

- "\$A'000"** means thousands of Australian dollars.
- "ABARE"** means the Australian Bureau of Agriculture and Resource Economics.
- "ABI"** means the Austrian Biofuels Institute.
- "AGAAP"** means the Australian Accounting Standards, Urgent Issues Group consensus views, and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporation Act.
- "AIFRS"** means the Australian equivalent International Financial Reporting Standards.
- "Amadeus"** means Amadeus Energy Limited (ABN 36 058 714 408).
- "Applicant"** means a person who submits an Application.
- "Application"** means a valid application to subscribe for Shares.
- "Application Form"** means the application forms attached to or accompanying, and forming part of, this Prospectus.
- "ARF"** or **"Company"** or **"Group"** means Australian Renewable Fuels Limited (ABN 66 096 782 188) and its 100% owned subsidiaries, ARFA and ARFP and its 50% owned subsidiary ASG Analytik Pty Ltd (ABN 98 104 576 918).
- "ARFA"** means Australian Renewable Fuels Adelaide Pty Ltd (ABN 89 107 953 720).
- "ARFP"** means Australian Renewable Fuels Picton Pty Ltd (ABN 72 108 170 270).
- "ASIC"** means Australian Securities and Investments Commission.
- "ASTC"** means ASX Settlement and Transfer Corporation Pty Limited (ABN 49 008 504 532).
- "ASTC Settlement Rules"** means the settlement rules of the ASTC as amended from time to time.
- "ASX"** means Australian Stock Exchange Limited (ABN 98 008 624 691).
- "AUD"** or **"A\$"** means Australian dollars.
- "B20"** means a mixture of 20% Biodiesel and 80% diesel.
- "B100"** means 100% Biodiesel.
- "BFT"** means Bleachable Fancy Tallow.
- "Biodiesel"** means a liquid comprising the methyl esters of a range of fatty acids.
- "Board"** means the Board of Directors of ARF unless the context indicates otherwise.
- "BTRE"** means the Bureau of Transport and Regional Economics.
- "Business Day"** means a day other than a Saturday or Sunday on which banks are open for business in Perth, Western Australia.
- "CHES"** means ASX Clearing House Electronic Subregistry System.
- "Closing Date"** means, in relation to the Priority Offer, 5.00pm WST on 26 April 2005, and in relation to the Public Offer, 5.00pm WST 29 April 2005.
- "Convertible Notes"** means 16,000 convertible notes, which are convertible into 24,000,000 Shares.
- "Corporations Act"** means the Corporations Act 2001 of Australia.
- "CSIRO"** means Commonwealth Scientific and Industrial Research Organisation;
- "Dangerous Good"** means a product or material defined as a Dangerous Good under Australian regulations.
- "Directors"** means the Board of Directors of the Company as it is constituted from time to time.
- "EBIT"** means earnings before interest and tax.
- "EBITDA"** means earnings before interest, tax, depreciation and amortisation.
- "Electronic Prospectus"** means the electronic version of this Prospectus.
- "Eligible Amadeus Shareholders"** means those persons whose details appear on the register of members of Amadeus on the Record Date.
- "Energea"** means Energea Umwelttechnologie GmbH.
- "Euro"** means the common currency of the European Union.
- "Exposure Period"** means the period of seven days after lodgement of this Prospectus which may be extended by the ASIC by not more than seven days pursuant to section 727(3) of the Corporations Act.
- "Fat"** means triglyceride fats and may be liquid (oil) or solid (fat) at room temperature.
- "Feedstock"** means Fat.
- "Financial Information"** means the information set out in Section 5.0 including the Forecast information and the Pro-forma and Historical financial statements as at 31 December 2004.
- "FOB"** means the price is quoted such that ARF incurs no further costs in delivering the goods to the purchaser.
- "Forecast"** means the Forecast Statement of Financial Performance as set out in Section 5.0.
- "Gardner Smith"** or **"GS"** means Gardner Smith Pty Limited (ABN 73 107 971 095) and its subsidiaries.
- "Gasoil Price EN590(1)"** means a specific gas oil price, being EN590(1) CIF MED, as quoted in the Platt's European Marketscan report.
- "Godiver"** means Godiver Handelsges mbH.
- "Historical"** means the Historical Statement of Financial Position at 31 December 2004, as set out in Section 5.0.
- "IAS"** means the International Accounting Standards.
- "IBDC"** means International Business Development Consultants Pty Ltd (ABN 52 103 675 565).
- "Independent Accountant on Consolidated Historical and Pro-forma Financial Information"** means Ernst & Young.
- "Independent Accountant on Forecast Financial Information"** means Ernst & Young Transaction Advisory Services Limited.
- "Independent Accountant's Report on Consolidated Historical and Pro-forma Financial Information"** means the report contained in Section 9.0.
- "Independent Accountant's Report on Forecast Financial Information"** means the report contained in Section 10.0.
- "Independent Biodiesel Market Researchers"** means Austrian Biofuels Institute.
- "Independent Engineers"** means Parsons Brinkerhoff Limited.
- "Independent Engineers' Report on Energea Technology"** means the report contained in Section 8.0.
- "Independent Review of the European Biodiesel Market"** means the report contained in Section 6.0.
- "Independent Review of the Feedstock Market"** means the report contained in Section 7.0.
- "Independent Feedstock Market Researchers"** means ProAnd Associates Australia Pty Ltd (ABN 19050104032).
- "Issuer Sponsored"** means shares issued by an issuer that are held in uncertificated form without the holder entering into a sponsorship agreement with a broker or without the holder being admitted as an institutional participant in CHES.
- "Leighton"** means Leighton Contractors Pty Ltd (ABN 98 000 893 667).
- "Lifecycle Emissions"** means the emissions associated with the use of a fuel during its manufacture as well as its consumption.
- "Listing Rules"** means the Listing Rules of the ASX.
- "Mlpa"** means million litres per annum.
- "NPAT"** means net profit after tax.
- "Offer"** means the offer of 20,000,000 Shares at \$1.00 per Share under this Prospectus as set out in Section 2.
- "Offer Period"** means the period commencing on the Opening Date and ending on the Closing Date.
- "Official List"** means the Official List of the ASX.
- "Official Quotation"** means quotation of the Shares on the Official List.
- "Opening Date"** means the date on which the Offer opens.
- "Priority Offer"** means the offer of 5,000,000 Shares to Eligible Amadeus Shareholders as set out in Section 2.1.
- "Prospectus"** means this prospectus dated 21 March 2005 in relation to the Offer, including the Electronic Prospectus.
- "Pro-forma"** means the Pro-forma Statement of Financial Position at 31 December 2004, as set out in Section 5.0.
- "Public Offer"** means the offer of up to 15,000,000 Shares to public investors as set out in Section 2.1.
- "Record Date"** means 21 March 2005.
- "SANT"** means Local Government Superannuation Board (ABN 92 930 911 098).
- "Section"** means a Section of this Prospectus.
- "Share"** means one fully paid ordinary share in ARF.
- "Shareholder"** means a holder of Shares.
- "Shaw"** means SHAW Stockbroking Limited (ABN 24 003 221 583).
- "Shelly Nominees"** means Shelly Nominees Pty Ltd (ACN 078 164 904).
- "Underwriter"** means Shaw.
- "Underwriting Agreement"** means the underwriting agreement described in section 12.1.19.
- "tpa"** means tonnes per annum.
- "WST"** means Western Standard Time, Perth, Western Australia.

# PUBLIC OFFER APPLICATION FORM

Accompanying the Prospectus dated 21 March 2005

**AUSTRALIAN RENEWABLE FUELS LIMITED**  
**ABN 66 096 782 188**

Please read all instructions on reverse of this form

**A. Number of Shares applied for**

minimum 2,000 and then multiples of 500 Shares.

at \$1.00 per Share =

**B. Total amount payable**

cheque(s) to equal this amount

you may be allocated all of the Shares above or a lesser number

**C. Full name details** title, given name(s) (no initials) and surname or company name

Name of applicant 1

Name of joint applicant 2 or <account name>

Name of joint applicant 3 or <account name>

**E. Full postal address**

Number/street



Suburb/town

State/postcode

**G. CHESS HIN** (if applicable)

**H. Cheque payment details**

please fill out your cheque details and make your cheque payable to "Australian Renewable Fuels Limited Float Account"

Drawer

Cheque No.

BSB No.

Account No.

Total amount of cheque

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**I. Return of the Public Offer Application Form with your cheque for the Application monies will constitute your offer to subscribe for ordinary shares in the Company. I/We declare that:**

- (a) this Application is completed according to the declaration/appropriate statements on the reverse of this form and agree to be bound by the Constitution of Australian Renewable Fuels Limited; and
- (b) I/we have received personally a copy of this Prospectus accompanied by or attached to the Public Offer Application Form or a copy of the Public Offer Application Form or a direct derivative of the Public Offer Application Form, before applying for Shares.

**No signature is required.**

You should read the Prospectus dated 21 March 2005 carefully before completing this Public Offer Application Form. The Corporations Act prohibits any person from passing on this Public Offer Application Form (whether in paper or electronic form) unless it is attached to or accompanies a complete and unaltered copy of the Prospectus and any relevant supplementary prospectus (whether in paper or electronic form).

Share Registrars use only	
Broker reference - stamp only	
Broker code	Adviser code

**D. Tax file number(s)**

Or exemption category

Applicant 1/company

Joint applicant 2/trust

Joint applicant 3/exemption

**F. Contact details**

Contact name

Contact daytime telephone no.

Contact email address

# GUIDE TO THE AUSTRALIAN RENEWABLE FUELS LIMITED PUBLIC OFFER APPLICATION FORM

This Public Offer Application Form relates to the Offer of 20,000,000 Shares at \$1.00 per Share pursuant to the Prospectus dated 21 March 2005. The expiry date of the Prospectus is the date which is 13 months after the date of the Prospectus.

The Prospectus contains information about investing in Australian Renewable Fuels Limited and it is advisable to read this document before applying for Shares.

A person who gives another person access to this Public Offer Application Form must at the same time and by the same means give the other person access to the Prospectus, and any supplementary prospectus (if applicable).

While the Prospectus is current, Australian Renewable Fuels Limited will send paper copies of the Prospectus, and any supplementary prospectus (if applicable), and an Application Form, on request and without charge.

Please complete all relevant sections of the Public Offer Application Form using BLOCK LETTERS. These instructions are cross referenced to each section of the Public Offer Application Form. Further particulars and the correct forms of registrable titles to use on the Public Offer Application Form are contained in the table below.

- |   |  |   |
|---|--|---|
| <p>A. Insert the number of Shares you wish to apply for. The Application must be for a minimum of 2,000 Shares and thereafter in multiples of 500 Shares.</p> <p>B. Insert the relevant amount of Application monies. To calculate your Application monies, multiply the number of Shares applied for by the \$1.00.</p> <p>C. Write the full name you wish to appear on the statement of shareholdings. This must be either your own name or the name of the company. Up to three joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applicants using the wrong form of title may be rejected. Clearing House Electronic Sub-Register System (CHES) participants should complete their name and address in the same format as that are presently registered in the CHES system.</p> <p>D. Enter your Tax File Number (TFN) or exemption category. Where applicable, please enter the TFN for each joint Applicant. Collection of TFN(s) is authorised by taxation laws. Quotation of your TFN is not compulsory and will not affect your Application.</p> <p>E. Please enter your postal address for all correspondence. All communications to you from the Share Registry will be mailed to the person(s) and address as shown. For Joint Applicants, only one address can be entered.</p> <p>F. Please enter your telephone number(s), area code, email address and contact name in case we need to contact you in relation to your Application.</p> | <p>G. Australian Renewable Fuels Limited will apply to the ASX to participate in CHES, operated by the ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of Australian Stock Exchange Limited. In CHES, the Company will operate an electronic CHES subregister of securities holdings and an electronic issuer sponsored subregister of securities holdings. Together the two subregisters will make up the Company's principal register of securities. The Company will not be issuing certificates to Applicants in respect of securities allotted.</p> <p>If you are a CHES participant (or are sponsored by a CHES participant) and you wish to hold securities allotted to you under this Application in uncertified form on the CHES subregister, complete Section G or forward your Public Offer Application Form to your sponsoring participant for completion of this section prior to lodgement.</p> <p>Otherwise, leave Section G blank and on allotment, you will be sponsored by the Company and an SRN will be allocated to you.</p> <p>For further information refer to the relative section of the Prospectus.</p> <p>H. Please complete cheque details as requested:</p> <p>Make your cheque payable to "Australian Renewable Fuels Limited Float Account" in Australian currency and cross it "Not Negotiable". Your cheque must be drawn on an Australian Bank. The amount should agree with the amount shown in Section B.</p> | <p>Sufficient cleared funds should be held in your account, as cheques returned unpaid are likely to result in your Application being rejected.</p> <p>I. Before completing the Public Offer Application Form the Applicant(s) should read the Prospectus to which the Application relates. By lodging the Public Offer Application Form, the Applicant(s) agrees that this Application is for Shares in Australian Renewable Fuels Limited upon and subject to the terms of this Prospectus, agrees to take any number of Shares equal to or less than the number of Shares indicated in Section A that may be allotted to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign the Public Offer Application Form.</p> <p><b>Lodgment of Applications</b><br/>Return your completed Public Offer Application Form with cheque(s) attached to:</p> <p>AUSTRALIAN RENEWABLE FUELS LIMITED<br/>C/- Computershare Investor Services Pty Ltd<br/>PO Box D182<br/>Perth WA 6840</p> <p>or delivered to:</p> <p>AUSTRALIAN RENEWABLE FUELS LIMITED<br/>C/- Computershare Investor Services Pty Ltd<br/>Level 2 Reserve Bank Building 45 St Georges Terrace<br/>Perth WA 6000</p> <p><b>Public Offer Application Forms must be received no later than 5.00 pm WST time on 29 April 2005.</b></p> |
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## CORRECT FORM OF REGISTRABLE TITLE

Note that only legal entities are allowed to hold Shares. Applications must be in the name(s) of a natural person(s), companies or other legal entities acceptable to Australian Renewable Fuels Limited. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable title may be included by way of an account designation if completed exactly as described in the example of correct forms of registrable title below:

TYPE OF INVESTOR	CORRECT FORM OF REGISTRABLE TITLE	INCORRECT FORM OF REGISTRABLE TITLE
<b>Individual</b> (Use names in full, no initials)	Mr John Alfred Smith	JA Smith
<b>Minor (a person under the age of 18)</b> Use the name of a responsible adult, do not use the name of a minor.	John Alfred Smith <Peter Smith>	Peter Smith
<b>Company</b> Use company title, not abbreviations	ABC Pty Ltd	ABC P/L ABC Co
<b>Trusts</b> Use trustee(s) personal name(s), do not use the name of the trust	Mrs Sue Smith <Sue Smith Family A/C>	Sue Smith Family Trust
<b>Deceased Estates</b> Use executor(s) personal name(s), do not use the name of the deceased	Ms Jane Smith <Est John Smith A/C>	Estate of late John Smith
<b>Partnerships</b> Use partners personal names, do not use the name of the partnership	Mr John Smith and Mr Michael Smith <John Smith and Son A/C>	John Smith and Son

**DIRECTORS**

Mr Robert Scott: Non-Executive Chairman  
Mr Darryl Butcher: Managing Director, CEO  
Mr Glyn Denison: Non-Executive Director  
Mr Graham Scott: Non-Executive Director  
Mr Geoffrey Townner: Non-Executive Director

**COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER**

Mr Max Ger

**INDEPENDENT BIODIESEL MARKET RESEARCHER**

Austrian Biofuels Institute  
Grosen 14/2, P.O. Box 97  
A-1014 VIENNA, AUSTRIA

**INDEPENDENT FEEDSTOCK MARKET RESEARCHER**

ProAnd Associates Australia Pty Ltd  
Suite 3, 10 Wharf Road  
GLADESVILLE NSW 2111

**INDEPENDENT ENGINEER**

Parsons Brinckerhoff Limited  
Ambar Court, William Armstrong Drive  
Newcastle Business Park  
Newcastle upon Tyne, NE4 7YD  
United Kingdom

**INDEPENDENT ACCOUNTANT**

Ernst & Young  
Ernst & Young Building  
11 Mounts Bay Road  
PERTH WA 6000

**INDEPENDENT ACCOUNTANT ON FORECAST**

**FINANCIAL INFORMATION**

Ernst & Young Transaction Advisory Services Limited  
Ernst & Young Building  
11 Mounts Bay Road  
PERTH WA 6000

**REGISTERED OFFICE**

Suite 1B, Level 5  
South Shore Piazza  
85 South Perth Esplanade  
SOUTH PERTH WA 6151  
Ph: (08) 9363 3500  
Fax: (08) 9363 3511

**SHARE REGISTRY**

ComputerShare Investor Services Pty Ltd  
Level 2, 45 St George's Terrace  
PERTH WA 6000

**AUDITOR**

Horwath Perth  
126 Hay Street  
SUBIACO WA 6008

**SOLICITOR TO THE COMPANY**

Blakiston & Crabb  
1202 Hay Street  
WEST PERTH WA 6005

**UNDERWRITER**

SHAW Stockbroking Limited  
Level 16  
60 Castlereagh Street  
SYDNEY NSW 2000

**WEBSITE**

[www.aifuels.com.au](http://www.aifuels.com.au)

**ASX CODE**

ARW



P.O. Box 627, South Perth, WA 6150

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