AUSTRALIAN RENEWABLE FUELS LIMITED

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ABN 66 096 782 188

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Friday, 30 September 2005

Company Announcements Office
Australian Stock Exchange Limited
10th Floor, 20 Bond Street
SYDNEY NSW 2000

Dear Sir/Madam,

RE: AUDITED FINANCIAL REPORT - YEAR ENDING 30 JUNE 2005

The Directors of Australian Renewable Fuels Limited have pleasure in enclosing the Audited Annual Financial Report for the Company for the year ended 30 June 2005.

Yours faithfully,

Max L Ger
Finance Director/Company Secretary

ENDS

AUSTRALIAN RENEWABLE FUELS LIMITED

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ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2005

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AUSTRALIAN RENEWABLE FUELS LIMITED

CORPORATE DIRECTORY

Directors

R N Scott	Chairman
D J Butcher	Managing Director
G F Towner	Director
G Denison	Director
G Scott	Director – appointed on 28 September 2004
M L Ger	Director – appointed 12 July 2005

Solicitors

Blakiston & Crabb
1202 Hay Street
West Perth WA 6005

Company Secretary

M L Ger

Auditors

Horwath Audit (WA) Pty Ltd
128 Hay Street
Subiaco WA 6008

Principal & Registered Office

Suite 1B, Level 5, South Shore Piazza
85 South Perth Esplanade
South Perth, WA 6151
Telephone: (08) 9363 3500
Facsimile: (08) 9363 3511
Website: www.arfuels.com.au

Bankers

HSBC Bank Australia Limited
188-190 St Georges Terrace
Perth WA 6000

Postal Address

PO Box 837
South Perth WA 6951

Share Registry

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne, VIC 3001

Stock Exchange Listing

Australian Stock Exchange
ASX Code: ARW

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2005.

Directors

The names of directors at any time during or since the end of the year are:

Mr Robert N Scott

Mr Darryl J Butcher

Mr Geoffrey F Towner

Mr Glyn Denison

Mr Graham Scott – appointed on 28 September 2004

Mr Max L Ger – appointed on 12 July 2005

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company Secretary

Mr Max Ger held the position of Company Secretary at the end of the financial year. Mr Ger is also a director of the Company and his qualifications and experience are outlined below. Mr Ger was appointed to the position on 1 December 2004 and replaced Mrs Caroline Bentley who was Company Secretary until that time.

Mrs Bentley is a chartered accountant with experience in the resources sector and public practice. She is a member of the Australian Institute of Chartered Accountants and Certified Practicing Accountants of Australia.

Mr Max L Ger – Mr 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 & Sells 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 Mr Ger was appointed Chief Financial Officer of the company and in December 2004 was appointed Company Secretary. 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. On 22 March 2005 Mr Ger was appointed a director of Australian Renewable Fuels Global Pty Ltd. On 12 July 2005 Mr Ger was appointed Finance Director of Australian Renewable Fuels Limited.

Principal Activities

The principal activities of the group during the period were:

- Obtaining the funding required to establish Biodiesel production facilities in Western Australia and South Australia;
- Developing the required documentation for and undertaking an Initial Public Offering ("IPO");
- Establishing the human resources team required to establish and operate Biodiesel production facilities in Australia;
- Commencement of the construction of a 44.5 million litre per annum Biodiesel plant in Largs Bay, South Australia; and,
- Commencement of the construction of a 44.5 million litre per annum Biodiesel plant in Picton, Western Australia.

There were no other changes to the nature of the principal activities of the Group during the financial year.

Operating Results

The consolidated loss of the economic entity after providing for income tax and eliminating outside equity interests amounted to $498,110 (2004: $24,661).

Dividend Policy

During the year no dividends were paid and the directors are recommending that no dividend be paid.

Review of Operations

The nature of the Company has changed quite significantly during the financial year.

As a consequence of both the successful fundraisings prior to the IPO and the funds raised during the IPO, the Company has been able to commence the construction of two Biodiesel production facilities. The first of these is located at Largs Bay in South Australia and the second at Picton in Western Australia.

At the time of writing this review, the construction of both the Largs Bay and Picton projects was well advanced. Largs Bay is scheduled for completion in the last quarter of calendar year 2005 and the Picton project is scheduled for completion in the first quarter of calendar 2006. This represents a delay of up to 6 weeks for the Largs Bay project compared with the completion date used to develop the IPO prospectus forecasts. The Picton project however is currently forecast to be completed up to 6 weeks earlier than the date used in the prospectus for this project. Consequently, the overall prospectus forecast for both plants in terms of production remains valid.

In terms of capital expenditure on the two projects, the Company has chosen to alter its contract mechanism with the Project Manager (Leighton Contractors Pty Ltd) from a Guaranteed Maximum Price ("GMP") structure to EPCM with fixed fee. The reason for this decision was that the Board concluded that in the current construction contracting environment present in Australia, the premium the Company would have been required to pay under the GMP structure was too high for the risk mitigation it provided. Notwithstanding this, and in spite of the significant increases in construction costs being experienced in Australia at the moment, cost increases have been contained within contingency provisions and no material increase in capital cost for both projects, over and above the forecast contained in the Prospectus was expected at the end of the financial year. Equally, in the intervening period up to the time of writing, no material increases have been identified.

The operating performance of the Company has been very encouraging. During the year, the Company budgeted a loss of $1.47 million. The actual loss of $498,110 is a significant reduction on forecast. This has been achieved, in part, through higher interest income than that assumed in the budget, but in most part through careful operating cost management and is a credit to the Company's executive team. The board believes it reflects a prudent combination of a conservative operating cost budget and a frugal approach to actual expenditure. In the intervening period up to the time of writing, the operating cost performance of the Company continued the trend established last year.

As the Company approaches the commissioning of its first two plants the directors are also mindful of the current spot price situation for both fats and diesel. While it is evident that the spot price of diesel is significantly higher than the average price used to develop the IPO forecasts (94cpl), and that fats have declined to a level that is up to 10% lower than the 10-year average used in the IPO, the directors are of the view that the forecasting model used in the IPO remains a suitably prudent tool. As a consequence, no change to the forecast performance of the Company has been assessed as being either prudent or necessary by the directors.

ARF was the recipient of a number of grants from both federal and state governments. With the advancement of both projects occurring as planned, scheduled payments associated with these grants have now been made and all are in good standing with the Company expecting to receive the full amount of each grant as forecast.

Financial Position

The net assets of the economic entity have increased by $56,760,991 during the year ended 30 June 2005. This increase has resulted from share issues raising $57,259,458 less the operating loss for the year.

The directors believe the group is in a strong and stable financial position to develop and commence operations of commercial scale Biodiesel fuel production plants in Australia.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

- (i) On 22 September 2004 the holding company issued 51,400,000 ordinary shares.
- (ii) On 2 May 2005 the holding company issued 24,000,000 ordinary shares at $0.667 each to Convertible Noteholders on the conversion of their Convertible Notes.
- (iii) On 2 May 2005 the holding company issued 20,000,000 ordinary shares at $1.00 each.
- (iv) On 5 May 2005 the holding company was admitted to the Australian Stock Exchange (ASX).
- (v) On 10 May 2005 the holding company issued 12,600,000 ordinary shares at $1.00 each as part consideration for the purchase of Shelly Nominees Pty Ltd.

Significant Changes in State of Affairs – cont'd

Changes in controlled entities and divisions:

(i) Purchased 100% of Shelly Nominees Pty Ltd for $3,000,000 cash and 12,600,000 ordinary shares at $1.00 each.

After Balance Date Events

At the date of the directors' report there is no matter or circumstance which has arisen since 30 June 2005 that has significantly affected or may significantly affect the operations, the results of those operations or the state of affairs of the consolidated entity or the company, in financial years subsequent to 30 June 2005.

Future Developments, Prospects and Business Strategies

Other than the development and operation of commercial scale Biodiesel fuel production facilities in Adelaide, South Australia and Picton, Western Australia during the 2006 financial year, there are no immediate developments that are likely to have a material effect on the future operations of the consolidated entity, although the company is continually reviewing opportunities for development and growth. Additional comments on expected results of operations of the consolidated entity are included in this report under the heading "Review of Operations".

Environmental Regulation

The consolidated entity is committed to achieving a high standard of environmental performance and adherence to occupational health and safety ("OH&S") best practice.

During the financial year, there were no incidents noted of significant impact on the workplace, the community, the environment or any regulatory breach.

Information on Directors

Robert N Scott - Non-Executive Chairman (Age 58)
FCA, MAICD

Experience & expertise
Non-Executive Chairman since 24 December 2002 with 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 to Gooding Pervan Chartered Accountants. He is a Fellow of the Institute of Chartered Accountants and a Fellow of the Taxation Institute of Australia.

Other current directorships in listed companies
Non-Executive Chairman of Amadeus Energy Limited and bioMD Ltd, Non-Executive Director of Homeloans Ltd and Evans & Tate Ltd (appointed to Evans & Tate in July 2005).

Former directorships in listed companies in last 3 years
None.

Special responsibilities
Chairman of Board

Interests in shares and options
Nil.

Darryl J Butcher – Managing Director, Chief Executive Officer (Age 47)
BSc, F Aus IMM, FAICD

Experience & expertise
Mr 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 5 years Mr Butcher has been committed to the development of a Biodiesel industry in Australia and is recognized as one of Australia's leading experts in the field. He was appointed the Managing Director of the company in January 2003.

Information on Directors – (cont'd)

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.

Other current directorships in listed companies
None

Former directorships in listed companies in last 3 years
None.

Special responsibilities
Chief Executive Officer

Interests in shares and options
12,600,000 ordinary shares in Australian Renewable Fuels Limited

Geoffrey F Towner – Non-Executive Director (Age 55)
MAICD

Experience & expertise
Mr Towner has been the Managing Director of Amadeus Energy Limited 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 a director of the company in May 2001, his experience in international business and strong management background are valuable to the company.

Other current directorships in listed companies
Amadeus Energy Limited.

Former directorships in listed companies in last 3 years
None.

Special responsibilities
None.

Interests in shares and options
Nil.

Glyn Denison – Non-Executive Director (Age 52)
BE

Experience & expertise
Mr Denison is a civil engineer and brings to the company 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 Bunning's Forest Products Ltd (now part of the Wesfarmers Group) and was Regional Manager for Willing & Partner – PNG for a period in the 1980's.

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.

Information on Directors – (cont'd)

Other current directorships in listed companies
Medec Ltd.

Former directorships in listed companies in last 3 years
None.

Special responsibilities
None.

Interests in shares and options
345,396 ordinary shares in Australian Renewable Fuels Ltd.

Graham Scott – Non-Executive Director (Age 60)
B Ec (Hons)

Experience & expertise
Mr 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 28 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.

Other current directorships in listed companies
None.

Former directorships in listed companies in last 3 years
None.

Special responsibilities
None.

Interests in shares and options
Nil.

Max L Ger –Executive Director and Company Secretary (Age 58)

Experience & expertise
Mr 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 & Sells 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 Mr Ger was appointed Chief Financial Officer of the company and in December 2004 was appointed Company Secretary of the Company. 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. On 12 July 2005 Mr Ger was appointed Finance Director of Australian Renewable Fuels Limited.

Other current directorships in listed companies
None.

Former directorships in listed companies in last 3 years
None.

Special responsibilities
Chief Financial Officer
Company Secretary
Finance Director

Information on Directors – (cont'd)

Interests in shares and options
20,000 ordinary shares in Australian Renewable Fuels Limited
525,000 employee options in Australian Renewable Fuels Limited

Meeting of Directors

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2005, and the numbers of meetings attended by each director were:

	FULL MEETING OF DIRECTORS		MEETINGS OF AUDIT COMMITTEE	
Directors	**A**	**B**	**A**	**B**
Robert N Scott	17	17	2	2
Darryl J Butcher	17	17	2	2
Geoffrey F Towner	14	17	2	2
G Denison	16	17	2	2
G Scott	13	13	1	1
M Ger	-	-	-	-

A - Number of meetings attended
B - Number of meetings held during the time that the director held office or was a member of the committee during the year

Retirement, election and continuation in office of directors

Mr G Towner is the director retiring by rotation and, being eligible, offers himself for re-election.

During the year under review and up to the date of this Directors' Report, Messrs G Scott and M Ger were appointed directors of the Company by the Board. In terms of the Company's Constitution, Messrs G Scott and M Ger retire from office and, being eligible, offer themselves for re-election.

Remuneration Report

Remuneration Committee responsibilities are carried out by the full Board.

The remuneration report is set out under the following main headings:

(a) Principles used to determine the nature and amount of remuneration
(b) Details of remuneration
(c) Service agreements
(d) Share-based compensation
(e) Other benefits.

(a) Principles used to determine the nature and amount of remuneration

The board recognizes that the company's performance is dependent on the quality of its people. To successfully achieve its financial and operating objectives, Arfuels must be able to attract, retain and motivate highly skilled executives dedicated to the interests of its shareholders.

The board seeks independent advice on remuneration policies and practices including recommendations on remuneration packages and other terms of employment for directors. In determining the remuneration of directors, advice is sought from external consultants on current market practices for similar roles, the level of responsibility, performance and potential of the director and performance of the Arfuels group.

Executive Directors

Executive remuneration and other terms of employment are reviewed annually by the Board having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. The objective of the review is to ensure that the remuneration package properly reflects the person's duties, responsibilities and level of performance, as well as being competitive to attract, retain and motivate the highest quality workforce.

Remuneration Report – (cont'd)

Fixed remuneration is made up of consulting fees and is determined by reference to appropriate benchmark information. The Arfuels group does not offer any variable remuneration incentive plans or bonus schemes.

Non-Executive Directors

Fees to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees are reviewed annually by the Board. The Chairman's fees are determined based upon comparative roles in the external market. The Chairman receives a base fee of $50,000 per annum. No fees are payable in respect of any Board Committees. Total non-executive director fees are not to exceed $300,000, as previously approved by the Company. There are no schemes for the payment of retirement benefits. Where applicable, contributions required under the Superannuation Guarantee legislation are made on behalf of the directors in accordance with the company's statutory superannuation obligations.

(b) Details of remuneration

Details of the remuneration of each director of Australian Renewable Fuels Limited are set out in the following tables. All elements of remuneration are not directly related to performance.

Details of the nature and amount of each major element of the emoluments of directors of the Company are detailed below;

2005	Salary, fees & Commissions	Superannuation Contributions	Options	Non-cash benefits	Other	Total
	$	$	$	$	$	$
Director						
Mr D Butcher	225,580	-	-	-	-	225,580
Mr G Denison	73,374	-	-	-	-	73,374
Mr R Scott	8,333	-	-	-	-	8,333
Mr G Towner	5,000	-	-	-	-	5,000
Mr G Scott	5,000	-	-	-	-	5,000
	317,287	-	-	-	-	**317,287**

2005	Salary, Fees & Commissions	Superannuation Contributions	Options	Non-cash benefits	Other	Total
	$	$	$	$	$	$
Specified Executive						
Mr M Ger	102,113	-	19,111	-	-	121,224

(c) Service agreements

Remuneration and other terms of employment for the Managing Director are formalized in a service agreement. A management contract is in place between the Company and NeoProTec Pty Ltd, a company in which Mr Butcher has an interest, whereby NeoProTec provides consulting services to the Company. The term of the agreement is for a period of 5 years from 1 July 2004.

A management contract was in place between the Company and ibdc Pty Ltd, a company in which Mr Denison has an interest, whereby ibdc provides consulting services to the Company. The term of the agreement was for a period of 1 year from 2 February 2004. The contract expired on 2 February 2005.

A management contract is in place between the Company and Picola Holdings Pty Ltd, a company in which Mr Ger has an interest, whereby Picola provides consulting services to the Company. The term of the agreement is for a period of 3 years from 30 November 2004.

Other than as outlined above, since the end of the previous financial year, no director has received or become entitled to receive a benefit, other than benefits disclosed in the financial statements as emoluments or the fixed salary of a full-time employee of the Company or a related body corporate, by reason of a contract made by the company with the director or with a firm of which he is a member, or with an entity in which he has a substantial financial interest.

(d) Share based compensation

Options are granted under the Employee Option Share Plan which was approved by the board of directors on 14 January 2005. Options are granted under the Plan for no consideration. Options are granted on varying expiry dates and exercise prices.

Remuneration Report – (cont'd)

During or since the end of the financial year, the Company issued 525,000 options to the directors of the Company as follows:

2005	Number Granted	Options granted as part of remuneration	Options Exercised	Options Lapsed	Total
		$	$	$	$
Directors					
Mr M Ger	525,000	19,111	-	-	19,111

On 12 July 2005 Mr Ger was appointed a director of Australian Renewable Fuels Limited.

Unissued ordinary shares of the Company under the Employee Option Share Plan under option at the date of this report are as follows:

Date Options granted	Number of Options	Exercise Price	Expiry Date	Commencement date Options can be exercised
		$		
15 April 2005	75,000	$0.50	30 November 2009	30 November 2005
15 April 2005	75,000	$1.00	30 November 2009	30 November 2006
15 April 2005	75,000	$1.50	30 November 2009	30 November 2007
5 August 2005	100,000	$1.13	30 June 2010	30 June 2006
5 August 2005	100,000	$1.50	30 June 2010	30 June 2007
5 August 2005	100,000	$2.00	30 June 2010	30 June 2008

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate and carry no dividend or voting rights.

No ordinary shares were issued during or since the end of the financial year as a result of the exercise of options by the directors.

(e) Other benefits

Australian Renewable Fuels Limited provides no other benefits to executive directors other than what is disclosed in the items above. No bonuses or other emoluments are paid to directors.

Indemnification and insurance of officers

During the financial year, the Company paid insurance premiums of $45,933 in respect of directors and officers' liability insurance.

The insurance premiums relate to:

- Costs and expenses incurred by the relevant directors and officers in defending civil or criminal proceedings and whatever their outcome; and
- Other liabilities that may arise from their position, with the exception of conduct involving a willful breach of duty or improper use of information or position to gain a personal advantage.

The officers of the Company covered under the agreement include the directors: Robert N Scott, Darryl J Butcher, Geoffrey F Towner, Glyn Denison, Graham Scott and Max L Ger.

Proceedings on behalf of the Company

No person has applied to the Court under Section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under Section 237 of the Corporations Act 2001.

DIRECTORS' REPORT – (CONT'D)

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the Company and/or consolidated entity are important.

Details of the amounts paid or payable to the auditor (Horwath Audit (WA) Pty Ltd) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as outlined below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principle relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 48.

During the year, the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2005	2004	**2005**	2004
	$	$	**$**	$
Audit services				
Auditors of the Company – Horwath Audit (WA) Pty Ltd	**25,939**	7,000	**25,939**	7,000
Taxation services				
Horwath (WA) Pty Ltd	**39,417**	15,650	**39,417**	15,650

Auditor

Horwath Audit (WA) Pty Ltd continues in office in accordance with Section 327 of the Corporations Act 2001.

DIRECTORS' REPORT – (CONT'D)

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

Robert N Scott
Non-executive Chairman

Dated at Perth on this the 28th day of September 2005.

CORPORATE GOVERNANCE REPORT

STATEMENT

Since the introduction of the ASX Principles of Good Corporate Governance and Best Practice Recommendations ("**ASX Guidelines**"), Australian Renewable Fuels Limited ("**Company**") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this report. Commensurate with the spirit of the ASX Guidelines, the Company has followed each Recommendation where the Board has considered the Recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company and the Board, resources available, activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the Recommendations, the Board has offered full disclosure of the nature of, and reason for, the adoption of its own practice.

Further information about the Company's corporate governance practices will shortly be set out on the Company's website at www.arfuels.com.au. In accordance with the recommendations of the ASX, information which will be published on the Company's website includes charters (for the board and its sub-committees), codes of conduct and other policies and procedures relating to the board and its responsibilities.

EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS

Since listing on the Australian Stock Exchange on 10 May 2005, the Company has been required to comply with each of the Ten Essential Corporate Governance Principles and the corresponding Best Practice Recommendations as published by the ASX Corporate Governance Council ("**ASX Principles and Recommendations**"). During the Company's 2004/2005 financial year ("**Reporting Period**") the Company has complied the ASX Principles and Recommendations other than in relation to the matters specified below. The Company complied with a number of requirements since the adoption of a Corporate Governance Manual on 11 March 2005.

Principle 1 Recommendation 1.1

Notification of Departure: Formalisation of the functions reserved to the Board and those delegated to management occurred on 11 March 2005 and will be disclosed when the Company's website is updated.

Explanation for Departure: As from 11 March 2005 the Company complied with the requirement that the functions be formalised. Prior to this time the functions were delegated but without formalisation and disclosure.

Principle 1 Recommendation 1.1

Notification of Departure: Formal letters of appointment for directors were not put in place during the reporting period.

Explanation for Departure: The Company is presently preparing these letters and expects to have them in place by 21 October 2005.

Principle 2 Recommendation 2.1

Notification of Departure: The Board does not have any independent directors.

Explanation for Departure: The additional costs of appointing further independent members to the board are not considered appropriate at this stage of the Company's development. The existing structure is aimed at maximising the financial position of the Company by keeping its operating costs to a minimum and focusing the full Board's attention to construction and Company development related matters.

The Board acknowledges that independent directors would be desirable over the longer term and will continue to monitor the composition of the Board and will make appropriate changes to its composition in line with changes in the needs of the business.

Principle 2 Recommendation 2.2

Notification of Departure: The Chair does not satisfy the test of independence as set out in Box 2.1 of the ASX Principles of Good Corporate Governance and Best Practice Recommendations Independence Test ("**Independence Test**")

CORPORATE GOVERNANCE REPORT – (CONT'D)

Explanation for Departure: While the board recognises the importance of independence in decision making, it does not comply with best practice recommendation 2.2 as Robert Scott, the current chair does not satisfy paragraph 2 of the Independence Test. The board believes that Mr Scott is the most appropriate person at present for the position as chair because of his professional experience and since at this point in time, none of the other directors are independent. The Board fully recognises the desirability of the appointment of a fully independent Chair and is actively addressing this issue.

Principle 2 Recommendation 2.4

Notification of Departure: A separate Nomination Committee has not been formed. However, the Company adopted the Nomination Committee Charter on 11 March 2005.

Explanation for Departure: The role of the nomination committee is carried out by the full Board in accordance with the Nomination Committee Charter. The Board considers that at this stage, no efficiencies or other benefits would be gained by establishing a separate Nomination Committee. Prior to 11 March 2005, the full Board reviewed and considered the selection and appointment of directors as required.

Principle 3 Recommendation 3.1

Notification of Departure: A Code of Conduct was formalised and adopted by the Company on 11 March 2005.

Explanation for Departure: Prior to 11 March 2005 the Board considers that its business practices, as led by the example of Board and key executives, were the equivalent of a code of conduct. These practices are now reflected in the Code of Conduct adopted by the Company.

Principle 3 Recommendation 3.2

Notification of Departure: The Company adopted a written securities trading policy on 11 March 2005.

Explanation for Departure: Prior to 10 May 2005 the Company was unlisted and there was no requirement for a written securities trading policy.

Principle 4 Recommendation 4.2, 4.3 and 4.4

Notification of Departure: The Board has not established a separate audit committee. The Audit Committee is the full board with the exception of the Finance Director/Chief Financial Officer.

Explanation for Departure: The Company's financial statements are prepared under the supervision of the Chief Financial Officer and are reviewed in detail by the full Board. The Board only approves the financial statements if it is satisfied with its review. The Board also relies on the functions and capabilities of its external auditors to ensure proper audit of financial statements. It is proposed to create an audit committee for the 2005/2006 financial year.

Principle 5 Recommendation 5.1

Notification of Departure: Until 11 March 2005 there were no written policies and procedures designed to ensure compliance with ASX Listing Rules and accountability for the compliance.

Explanation for Departure: Prior to 10 May 2005 the Company was unlisted and there was no requirement for written policies and procedures designed to ensure compliance with ASX Listing Rules and accountability for the compliance.

Principle 6 Recommendation 6.1

Notification of Departure: The Board did not formalise a communications strategy until 11 March 2005.

Explanation for Departure: The Company has a positive strategy to communicate with shareholders, identify the expectations of shareholders and actively promote shareholder involvement in the Company. These strategies have now been documented and will be disclosed on the Company's website.

Principle 8 Recommendation 8.1

Notification of Departure: The process for performance evaluation of the Board, its committees and individual directors was not disclosed or carried out during the Reporting Period.

Explanation for Departure: Due to the Company's recent listing on the ASX, a formal performance evaluation was not conducted. However the Managing Director continually monitored the performance of the key executives. The Board intends to comply with this best practice recommendation in the 2005/2006 financial year.

Principle 9 Recommendation 9.1

Notification of Departure: The Company's remuneration policy was not disclosed.

Explanation for Departure: The Company intends to develop a remuneration policy in its 2005/2006 financial year. Remuneration practices are currently in accordance with the general principles recommended by the ASX, that is, Non-Executive Directors receive a fixed fee for their services and do not receive performance-based remuneration.

Principle 9 Recommendation 9.2

Notification of Departure: The Board has not established a separate Remuneration Committee. The Company adopted the Remuneration Committee Charter on 11 March 2005.

Explanation for Departure: The Board considers that due to its small size, all members should be involved in determining remuneration levels. Accordingly, time is set aside when appropriate at Board meetings to specifically address the matters usually considered by a remuneration committee and function in accordance with the Remuneration Committee Charter. Executive directors absent themselves during discussion of their remuneration.

Although Non-Executive Directors did not absent themselves during discussions of their remuneration, consideration of this matter by the Board was limited to a final sign-off. The full Board commissioned an independent report by the firm Horwath Audit (WA) Pty Ltd and that firm then provided findings on the appropriate level of remuneration. The Board resolved that the directors should be remunerated at the lower end of the scale provided in that report.

THE FULL BOARD'S CONSIDERATION OF NOMINATION MATTERS

The following table shows the attendance of directors at meetings where nomination matters were dealt with:

Name	No. of meetings held	No. of meetings attended
Robert Scott (Chair)	2	2
Darryl Butcher	2	2
Max Ger*	0	0
Graham Scott **	1	1
Glyn Denison	2	2
Geoffrey Towner	2	2

* Max Ger was appointed director on 12 July 2005

**Graham Scott was appointed director on 28 September 2004

Max Ger and Graham Scott were not in attendance when the Board considered their respective nominations.

None of the directors are considered independent.

THE FULL BOARD'S CONSIDERATION OF AUDIT MATTERS

Qualifications of the directors as they relate to audit matters

A profile of each director containing the skills, experience and expertise relevant to holding audit committee position is set out in the Directors' Report.

None of the directors are considered independent.

Attendance of directors at Meetings where audit matters were considered

Name	No of meetings held	No of meetings attended
Robert Scott (Chair)	3	3
Darryl Butcher	3	3
Graham Scott **	2	2
Glyn Denison	3	3
Geoffrey Towner	3	3

**Graham Scott was appointed director on 28 September 2004

THE FULL BOARD'S CONSIDERATION OF REMUNERATION MATTERS

Company's Remuneration Policies

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report.

The broad remuneration policy is to ensure that remuneration properly reflects the relevant person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board believes that the best way to achieve this objective is to provide Executive Directors and executives with a remuneration package consisting of fixed components, including bonuses or equity based remuneration, that reflect the person's responsibilities, duties and personal performance.

Executive Directors absent themselves from meetings when their own remuneration is discussed or determined.

The remuneration of Non-Executive Directors is determined by the Board as a whole having regard to an independent report which the Board commissioned to be carried out by Horwath (WA) and the level of fees paid to Non-Executive Directors by other companies of similar size in the industry. The full Board determined that the appropriate level of remuneration was at the lower end of the scale provided in the Horwath report.

Attendance of directors at Meetings where remuneration matters were considered

Name	No of meetings held	No of meetings attended
Robert Scott (Chair)	2	2
Darryl Butcher	2	2
Max Ger *	0	0
Graham Scott **	2	2
Glyn Denison	2	2
Geoffrey Towner	2	2

* Max Ger was appointed director on 12 July 2005

**Graham Scott was appointed director on 28 September 2004

OTHER

Skills, Experience, Expertise and term of office of each Director

A profile of each director containing the applicable information is set out in the Directors' Report.

Identification of Independent Directors

Based on the criteria for independence set out in the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the Company has no independent directors.

CORPORATE GOVERNANCE REPORT – (CONT'D)

Two of the directors hold executive positions in the Company - Darryl Butcher is Managing Director and Max Ger is Chief Financial Officer and Company Secretary.

Robert Scott and Geoffrey Towner are directors of Amadeus Energy Limited ("Amadeus"), the Company's largest shareholder. Glyn Denison was appointed by Amadeus and also has an option over 1% of shares held by Amadeus in the Company. Similarly, Graham Scott is a director of Local Government Superannuation Board (South Australia and the Northern Territory), which is a substantial shareholder in the Company.

Statement concerning availability of Independent Professional Advice

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director, then, provided the director first obtains approval for incurring such expense from the board, the Company will pay the reasonable expenses associated with obtaining such advice.

Confirmation whether performance Evaluation of the Board and its members has taken place and how conducted

During the Reporting Period an evaluation of the Board and its members was not carried out. It is expected that the Chair will carry out an evaluation process for the Board and its members in the 2005/2006 financial year.

Existence and Terms of any Schemes for Retirement Benefits for Non-Executive Directors

There are no termination or retirement benefits for Non-Executive Directors.

AUSTRALIAN RENEWABLE FUELS LIMITED AND CONTROLLED ENTITIES

STATEMENTS OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	NOTES	CONSOLIDATED ENTITY 2005 $	2004 $	PARENT ENTITY 2005 $	2004 $
Revenue from operating activities	2	75,162	1,700	75,162	-
Revenue from outside operating activities	2	723,649	-	723,369	-
Total Revenue		**798,811**	**1,700**	**798,531**	**-**
Cost of goods sold	3	(63,147)	-	(63,147)	-
Administrative expenses		(937,453)	(26,520)	(927,019)	(22,916)
Employee expenses		(162,083)	-	(162,083)	-
Other expenses from ordinary expenses	3	(44,769)	-	(39,046)	-
Earnings before interest, tax, depreciation & amortisation		(408,641)	(24,820)	(392,764)	(22,916)
Borrowing costs	3	(79,386)	-	(79,386)	-
Depreciation	3	(10,440)	-	(10,440)	-
Loss from ordinary activities before related income tax expense		**(498,467)**	(24,820)	**(482,590)**	(22,916)
Income tax expense relating to ordinary activities	4	-	-	-	-
Loss from ordinary activities after income tax expense		**(498,467)**	**(24,820)**	**(482,590)**	**(22,916)**
Net profit (loss) attributable to outside equity interest		(357)	159	-	-
Net loss attributable to members of Australian Renewable Fuels Limited		**(498,110)**	**(24,661)**	**(482,590)**	**(22,916)**
Total changes in equity other than those resulting from transactions with owners as owners		**(498,110)**	**(24,661)**	**(482,590)**	**(22,916)**
Basic earnings per share (cents per share)	22	(1.076)	-	-	-
Diluted earnings per share (cents per share)	22	(1.076)			
Earnings per share (EBITDA)	22	(0.881)			

The accompanying notes form an integral part of these statements of financial performance.

STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	NOTES	CONSOLIDATED ENTITY 2005 $	CONSOLIDATED ENTITY 2004 $	PARENT ENTITY 2005 $	PARENT ENTITY 2004 $
Current assets					
Cash assets	5	**32,166,531**	12,180	**30,201,180**	12,180
Receivables	6	**338,948**	1,870	**336,799**	-
Other	7	**488,711**	25,665	**488,711**	25,665
Inventories	8	**30,387**	-	**30,387**	-
Total current assets		**33,024,577**	39,715	**31,057,077**	37,845
Non-current assets					
Receivables	6	-	-	**9,671,576**	4,800
Development expenditure	9	**3,283,800**	2,845,908	**3,283,800**	2,845,908
Other	10	-	294,349	-	294,348
Property, plant & equipment	11	**10,431,461**	-	**780,840**	-
Other financial Assets	12	-	-	**15,600,005**	4
Intangible assets	13	**15,599,998**	-	-	-
Total non-current assets		**29,315,259**	3,140,257	**29,336,221**	3,145,060
Total assets		**62,339,836**	3,179,972	**60,393,298**	3,182,905
Current liabilities					
Payables	14	**2,724,105**	3,250	**2,545,437**	3,250
Provisions	15	**4,900**	-	**4,900**	-
Other	15a	**464,411**	-	**464,411**	-
Total current liabilities		**3,193,416**	3,250	**3,014,748**	3,250
Non-current liabilities					
Non-interest bearing liabilities	16	-	3,302,813	-	3,302,813
Payables	17	**2,511,520**	-	**724,840**	-
Total non-current liabilities		**2,511,520**	3,302,813	**724,840**	3,302,813
Total liabilities		**5,704,936**	3,306,063	**3,739,588**	3,306,063
Net assets		**56,634,900**	(126,091)	**56,653,710**	(123,158)
Equity					
Contributed equity	18	**57,259,460**	2	**57,259,460**	2
Outside equity interest	19	-	357	-	-
Accumulated profits/(losses)	20	**(624,560)**	(126,450)	**(605,750)**	(123,160)
Total equity	21	**56,634,900**	(126,091)	**56,653,710**	(123,158)

The accompanying notes form an integral part of these statements of financial position.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	NOTES	CONSOLIDATED ENTITY 2005 $	CONSOLIDATED ENTITY 2004 $	PARENT ENTITY 2005 $	PARENT ENTITY 2004 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		18,746	18,634	18,746	18,634
Cash payments in the course of operations		(1,885,078)	(69,439)	(1,740,852)	(65,665)
Interest received		728,369	-	728,369	-
Borrowing costs		(79,386)	-	(79,386)	-
Other income		5,000	-	5,000	-
Net cash provided by/(used) in operating activities	23	**(1,212,349)**	**(50,805)**	**(1,068,123)**	**(47,031)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for Shelly Nominees net of cash acquired		(1,000,000)	-	(1,000,000)	(3,774)
Payments for property, plant & equipment		(10,547,949)	(1,169,964)	(861,280)	(1,169,964)
Net cash provided by/(used) in investing activities		**(11,547,949)**	**(1,169,964)**	**(1,861,280)**	**(1,173,738)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		42,789,977	-	42,789,977	-
Proceeds from related party		-	1,226,316	-	1,226,316
Grants received		2,124,672	-	-	-
Loan to related parties		-	-	(9,671,574)	-
Net cash provided by/(used) in financing activities		**44,914,649**	**1,226,316**	**33,118,403**	**1,222,542**
Net increase in cash held		32,154,351	5,547	30,189,000	5,547
Cash at the beginning of the financial period		12,180	6,633	12,180	6,633
Cash at the end of the financial period	23	**32,166,531**	**12,180**	**30,201,180**	**12,180**

The accompanying notes form an integral part of these statements of cash flows.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Renewable Fuels Limited is a publicly listed company incorporated and domiciled in Australia.

The financial report has been prepared on the accruals basis and is based on historical costs and, except where stated, does not take into account changing money values or fair values of non-current assets.

Unless otherwise stated, the accounting policies are consistent with those of the previous year.

(b) Principles of consolidation

Controlled entities
The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

Transactions eliminated on consolidation
Unrealised gains and losses and inter-company balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Associates
Associates are those entities, other than partnerships, over which the consolidated entity exercises significant influence and which are not intended for sale in the near future.

In the consolidated financial statements, investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amounts and recoverable amount. The consolidated entity's equity accounted share of the associates' net profit or loss is recognised in the consolidated statement of financial performance from the date significant influence commences until the date significant influence ceases. Other movements in reserves are recognised directly in consolidated reserves.

(c) Acquisition of assets

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

(d) Development expenditure

Development
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.

(e) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with arrangement of borrowings.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Borrowing costs are capitalised using a weighted average capitalisation rate.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT'D

(f) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Sale of goods
Revenue from the sale of goods is recognised when control of the goods passes to the customer.

Grants
Grants are treated as liabilities when initially received and recognised as income once earned.

Interest revenue
Interest revenue is recognised as it accrues.

Sale of non-current assets
The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(g) Foreign currency translation

Transactions
Foreign currency transactions are translated to Australian currency at the rate of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Resulting exchange differences are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

Translations of financial controlled entities
The assets and liabilities of foreign operations that are self-sustaining are translated at the rates of exchange ruling at balance date. Equity items are translated at historical rates. The statements of financial performance are translated at the average of rates ruling during the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

Specific commitments
Hedging is undertaken in order to avoid or minimise possible adverse financial effects in the movement of the Australian dollar. Gains and losses arising at the time of entering into a hedge together with subsequent gains or losses resulting from those transactions are deferred up to the date of the sale and included in the measurement of the sale. Any gains or losses on the hedge transaction after that date are included in the Statement of Financial Performance.

(h) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax is regarded as an expense on operating profit after adjusting for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes is carried forward in the Statement of Financial Position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

(i) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis, other than development expenditure carried forward (refer Note 1(d)), are reviewed at each reporting date to assess whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Board makes a formal estimate of recoverable amount. Where the carrying amount of a non-current asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT'D

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In assessing recoverable amounts of non-current assets, the relevant cash inflows have not been discounted to their present value, except where specifically stated.

(j) Cash

For purposes of the Statements of Cash Flows, cash includes cash on hand and in banks, and deposits at call which are readily convertible to cash within two working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Net realisable value
Net realisable value is the amount estimated to be obtained from sale of the item of inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale.

(l) Depreciation

Depreciation is calculated on a straight line basis on all property, plant and equipment over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for appropriateness.

The expected useful lives for each class of assets are as follows:

- Machinery and equipment, 5-15 years depending on the nature of the asset
- Plant and equipment, 5-15 years depending on the nature of the asset

Assets are depreciated from the date of acquisition or, in respect of internally generated assets, from the time an asset is completed and held ready for use.

(m) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30 days.

(n) Interest bearing liabilities

Interest bearing liabilities are measured at the principal amount. Interest is charged as an expense as it accrues.

(o) Earnings per share

Basic earnings per share
Basic earnings per share is determined by dividing the profit from ordinary activities after related income tax expense by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT'D

(p) Employee entitlements

Wages, salaries, annual leave and sick leave
Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to balance date. These benefits include salary and wages, annual leave and long service leave.

Liabilities arising in respect of salary and wages and annual leave expected to be settled within 12 months of the reporting date are measured at their nominal values.

Long service leave
The liability for long service leave is measured as the present value of expected future outflows to be made in respect of services provided by employees up to the reporting date.

Superannuation plan
Contributions are made by the Company to employee superannuation funds and are charged as expenses when incurred.

Employee share and option plans
Where options are issued to employees as remuneration for past services, the fair value of consideration received, if any, is recorded in contributed equity.

Transaction costs associated with issuing options are recognised in equity subject to the extent of proceeds received, otherwise expensed. Other administrative costs are expensed.

(q) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recovered from the Australian Taxation Office ("ATO"). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

The net amount of GST recovered from, or payable to, the ATO is included as a current asset or liability in the Statements of Financial Position.

Cash flows are included in the Statements of Cash Flows on a gross basis. Receivables and payables are stated with the amount of GST included.

(r) Investments

Controlled entities
Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

Associates
In the Company's financial statements, investments in unlisted shares of associates are carried at the lower of cost and recoverable amount.

Other entities
Investments in other unlisted entities are carried at the lower of cost and recoverable amount.

(s) Leased assets

Leases under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases
Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expenses as incurred.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT'D

Operating leases
Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the lease property.

(t) Biodiesel Royalty Buy Back

The Company purchased back a royalty right on its Biodiesel production. The cost of the royalty will be amortised over the future Biodiesel production of the consolidated entity. Amortisation of the consideration will begin when production commences at the Company's Biodiesel plants.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2005	2004	2005	2004
	$	$	$	$
2. REVENUE FROM ORDINARY ACTIVITIES				
Revenue from operating activities:				
Revenue from laboratory services	-	1,700	-	-
Biodiesel revenue	**75,162**	-	**75,162**	-
Interest income	**723,649**	-	**723,369**	-
Total revenue from ordinary activities	**798,811**	1,700	**798,531**	-
3. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE				
Profit/(loss) from ordinary activities before income tax expense includes the following specific net gains and expenses:				
Net expenses				
Cost of goods sold	**63,147**	-	**63,147**	-
Operating lease rental expense	**48,633**	-	**48,633**	-
Depreciation - Plant & equipment	**10,440**	-	**10,440**	-
Borrowing costs – other	**79,386**	-	**79,386**	-
Net expense from movement in provision for:				
Employee entitlements	**4,900**	-	**4,900**	-
4. INCOME TAX				
(a) Income tax expense				
Prima facie income tax expense calculated at 30% (2004:30%) on the loss from ordinary activities	**149,325**	7,446	**144,777**	6,875
Tax effect of tax losses not brought to account:	**(149,325)**	(7,446)	**(144,777)**	(6,875)
Income tax expense/(benefit)	-	-	-	-
(b) Future income tax benefit not brought to account				
As at 30 June 2005, the Directors estimate that the potential future income tax benefit in respect of tax losses not brought to account is as follows:	2,171,856	2,022,531	2,166,531	2,021,754

The potential future income tax benefit only will be obtained if:

(i) The economic entity derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised, by the economic entity in accordance with the Income Tax Assessment Act 1997;

(ii) the economic entity continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the economic entity in realising the benefit.

(c) Dividend franking account

There are no franking account credits available as at 30 June 2005.

NOTES TO AND FORMING PART OF THE ACCOUNTS - (CONT'D)
30 JUNE 2005

		CONSOLIDATED ENTITY		PARENT ENTITY	
		2005	2004	**2005**	2004
		$	$	**$**	$
5.	**CASH ASSETS**				
	Cash at bank and on hand	**32,166,531**	12,180	**30,201,180**	12,180
6.	**RECEIVABLES – CURRENT**				
	Trade debtors	**71,331**	1,870	**69,461**	
	Other debtors	**267,617**	-	**267,338**	-
		338,948	1,870	**336,799**	-
	RECEIVABLES – NON CURRENT				
	Loans to controlled entities – unsecured	-	-	**9,671,576**	4,800
7.	**OTHER ASSETS**				
	Prepayments	**24,300**	25,665	**24,300**	25,665
	Unrealised asset on foreign exchange hedge liability	**464,411**	-	**464,411**	-
		488,711	25,665	**488,711**	25,665
8.	**INVENTORIES**				
	Biodiesel stock – at cost	**30,387**	-	**30,387**	-
9.	**DEVELOPMENT EXPENDITURE**				
	Balance at beginning of year	2,845,908	1,675,944	2,845,908	1,675,944
	Additions	437,892	1,169,964	437,892	1,169,964
	Disposals	-	-	-	-
	Depreciation/amortisation	-	-	-	-
	Balance at end of year	**3,283,800**	2,845,908	**3,283,800**	2,845,908
10.	**OTHER ASSETS – NON CURRENT**				
	Deposits Paid	-	294,349	-	294,348

		CONSOLIDATED ENTITY		PARENT ENTITY	
		2005	2004	**2005**	2004
		$	$	**$**	$
11.	**PROPERTY, PLANT & EQUIPMENT**				
	Carrying amount at beginning of year	-	-	-	-
	Additions	10,441,901	-	791,280	-
	Disposals	-	-	-	-
	Depreciation/amortisation	(10,440)	-	(10,440)	-
	Total property, plant & equipment net book value	**10,431,461**	-	**780,840**	-
	Reconciliations of the carrying amounts for each class of property, plant & equipment are set out below:				
	Property: Land				
	Carrying amount at beginning of year	-	-	-	-
	Additions	682,200	-	-	-
	Disposals	-	-	-	-
	Depreciation/amortisation	-	-	-	-
	Carrying amount at end of year	**682,200**	-	-	-
	Plant & equipment				
	Carrying amount at beginning of year	-	-	-	
	Additions	9,759,701	-	791,280	
	Disposals	-	-	-	
	Depreciation/amortisation	(10,440)	-	(10,440)	
	Carrying amount at end of year	**9,749,261**	-	**780,840**	
12.	**OTHER FINANCIAL ASSETS**				
	Investment in subsidiaries	-	-	**15,600,005**	4
	See Note 25 for details of Controlled Entities.				
13.	**INTANGIBLE ASSETS**				
	Biodiesel Royalty Buy Back	**15,599,998**	-	-	-
14.	**PAYABLES**				
	Trade creditors & accruals	**2,724,105**	3,250	**2,545,437**	3,250
15.	**PROVISIONS**				
	Provision for employee entitlements	**4,900**	-	**4,900**	-
	Number of employees at year end	**3**	-	**3**	-
15a.	**OTHER**				
	Unrealised gain on foreign exchange hedge liability	**464,411**	-	**464,411**	-
16.	**NON-INTEREST BEARING LIABILITIES**				
	Other loans – unsecured	-	**3,302,813**	-	**3,302,813**

The balance owed to Amadeus Energy Limited was unsecured, non-interest bearing and had no fixed maturity date. The loan was repaid in full on 13 May 2005.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2005	2004	**2005**	2004
	$	$	**$**	$
17. PAYABLES – NON CURRENT LIABILITIES				
Grants received	**1,931,520**	-	**144,840**	
Other loans – secured	**580,000**	-	**580,000**	-
	2,511,520	-	**724,840**	-

The Other loan is secured by Lot 2000 on Deposited Plan 29618. This loan is convertible to a grant over a five year period when certain milestones are met.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2005	2004	**2005**	2004
	Shares	Shares	**Shares**	Shares
18. CONTRIBUTED EQUITY				
Issued Share Capital				
108,000,000 (2004: 2)				
Fully Paid Ordinary Shares	**108,000,000**	**2**	**2**	**2**
Movement in ordinary share capital during the year				
Balance at the beginning of the financial year	**2**	2	**2**	2
Share issues during the year				
10 September 2004	**100**		**100**	
22 September 2004	**51,400,000**		**51,400,000**	
2 May 2005	**20,000,000**		**20,000,000**	
2 May 2005	**24,000,000**		**24,000,000**	
10 May 2005	**12,600,000**		**12,600,000**	
Shares cancelled during the year				
22 September 2004	**(102)**		**(102)**	
Balance in issued share capital at end of year	**108,000,000**	**2**	**108,000,000**	**2**

	2005	**2004**	**2005**	**2004**
	$	**$**	**$**	**$**
Balance at 30 June 2004	**2**	2	**2**	2
Share Placement – 10 September 2004	**8,000,000**	-	**8,000,000**	-
Conversion of loan from Amadeus to equity 22 September 2004	**3,431,969**	-	**3,431,969**	-
Issue of 24,000,000 Shares at 66.67 cents each on conversion of Convertible Notes – 29 April 2005	**16,000,000**	-	**16,000,000**	-
Cost of Convertible Note issue	**(1,454,592)**		**(1,454,592)**	
Issue of 20,000,000 Shares at $1.00 each – 27 April 2005	**20,000,000**	-	**20,000,000**	-
Transaction costs of issuing shares	**(1,317,919)**	-	**(1,317,919)**	-
Issue of 12,600,000 Shares at $1.00 each to Darryl Butcher to acquire Shelly Nominees Pty Ltd – 28 May 2005	**12,600,000**	-	**12,600,000**	-
Balance in issued share capital at end of year	**57,259,460**	**2**	**57,259,460**	**2**

Share Options
Options over ordinary shares:
No listed options were on issue as at 30 June 2005.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

	CONSOLIDATED ENTITY		PARENT ENTITY	
19. OUTSIDE EQUITY INTERESTS	**2005**	**2004**	**2005**	**2004**
	$	**$**	**$**	**$**
Outside equity interests in controlled entities comprise:				
Interest in retained profits	-	198	-	-
Interest in share capital	-	159	-	-
Total outside equity Interests	**-**	**357**	**-**	**-**

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2005	2004	**2005**	2004
	$	$	**$**	$
20. ACCUMULATED LOSSES				
Balance at the beginning of the financial year	**(126,450)**	(101,789)	**(123,160)**	(100,244)
Net loss attributable to members of the Company	**(498,110)**	(24,661)	**(482,590)**	(22,916)
Accumulated losses at the end of the financial year	**(624,560)**	**(126,450)**	**(605,750)**	**(123,160)**

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2005	2004	**2005**	2004
	$	$	**$**	$
21. TOTAL EQUITY RECONCILIATION				
Total equity at the beginning of the financial year	**(126,091)**	(101,430)	**(123,158)**	(100,242)
Total changes in parent entity interest in equity recognised in the statements of financial performance	**(498,467)**	(24,661)	**(482,590)**	(22,916)
Transactions with owners as owners:				
Share Placements	**56,600,000**	-	**56,600,000**	-
Conversion of loan to equity	**3,431,969**	-	**3,431,969**	-
Transaction costs of issuing shares	**(2,772,511)**	-	**(2,772,511)**	-
Total equity at the end of the financial year	**56,634,900**	**(126,091)**	**56,653,710**	**(123,158)**

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2005	2004	**2005**	2004
	$	$	**$**	$
22. EARNINGS PER SHARE				
Earnings used in the calculation of basic and diluted earnings per share	(498,110)	-	-	-
Earnings used in the calculation of earnings before interest, tax, depreciation & amortisation	(407,927)	-	-	-
Weighted average number of ordinary shares used in the calculation of:				
Basic earnings per share	46,308,497			-
Diluted earnings per share	46,308,497	-	-	-

Other potential ordinary shares have not been included in the calculation of diluted earnings per share as they are not considered dilutive.

Basic earnings per share	**(1.076)**
Diluted earnings per share	**(1.076)**
Earnings per share (EBITDA)	**(0.881)**

23. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2005	2004	**2005**	2004
	$	$	**$**	$
(a) Reconciliation of cash				
Cash Assets – Cash at bank	**32,166,531**	12,180	**30,201,180**	12,180
	32,166,531	**12,180**	**30,201,180**	**12,180**
(b) Reconciliation of profit/(loss) from ordinary activities after income tax to net cash flows provided by operating activities				
Profit/(loss) from ordinary activities after tax	**(498,110)**	(24,820)	**(482,590)**	(22,916)
Non cash flows in operating loss:				
Depreciation of plant & equipment	**10,440**	-	**10,440**	-
Changes in assets and liabilities				
(Increase) in trade debtors and receivables	**(337,078)**	(1,870)	**(336,799)**	-
(Increase) in inventory	**(30,387)**	-	**(30,387)**	-
Decrease in prepayments	**1,365**	(25,665)	**1,365**	(25,665)
Increase in creditors and accruals	**719,782**	1,550	**542,187**	1,550
Increase in employee entitlements accrual	**4,900**	-	**4,900**	-
Other	**(1,083,261)**	-	**(777,239)**	-
Net cash provided by/(used in) operating activities	**(1,212,349)**	**(50,805)**	**(1,068,123)**	**(47,031)**

(c) Acquisition of Entities

During the year 100% of the controlled entity Shelly Nominees Pty Ltd was acquired. Details of the transaction are:

Purchase consideration	**15,600,000**	-	**15,600,000**	-
Cash consideration	1,000,000	-	1,000,000	-
Equity	12,600,000	-	12,600,000	-
Amount due under contract of sale	2,000,000		2,000,000	
	15,600,000	-	**15,600,000**	-
Cash outflow/inflow	1,000,000		1,000,000	
Assets and liabilities held at acquisition date:				
ASSETS				
Cash at bank	2	-	2	-
Royalty Rights	15,599,998	-	15,599,998	-
	15,600,000	-	**15,600,000**	-

(d) Non –cash Financing & Investing Activities

Share Issue: 12,600,000 ordinary shares were issued at $1 each as part of the consideration for the purchase of Shelly Nominees Pty Ltd.

24. DIVIDENDS

During the period no dividends were paid or proposed.

25. CONTROLLED ENTITIES

(a) Particulars in relation to controlled entities

Parent Entity
Australian Renewable fuels Limited

Controlled Entities	Country of Incorporation	Investment Carrying Amount 2005 $	Investment Carrying Amount 2004 $	Ordinary Shares Ownership Interest 2005 %	Ordinary Shares Ownership Interest 2004 %
ASG Analytik Pty Ltd	Australia	1	1	**50%**	50%
Australian Renewable Fuels Adelaide Pty Ltd	Australia	1	1	**100%**	100%
ARF Picton Pty Ltd	Australia	2	2	**100%**	100%
ARF Global Pty Ltd – acquired 22 March 2005	Australia	1	-	**100%**	-
Shelly Nominees Pty Ltd – acquired 10 May 2005	Australia	2	-	**100%**	-

Purchase consideration for Shelly Nominees Pty Ltd consists of the issue of 12,600,000 ordinary shares at an implied value of $1.00 each on 28 May 2005 and $3,000,000 cash payable as follows:

- $1,000,000 on initial quotation on ASX and paid on 4 May 2005;
- $1,000,000 on sale of 1,000 tonnes of Biodiesel from the Adelaide plant; and
- $1,000,000 on sale of 1,000 tonnes of Biodiesel from the Picton plant.

26. EVENTS OCCURRING AFTER REPORTING DATE

At the date of the directors declaration there is no matter or circumstance which has arisen since 30 June 2005 that has significantly affected or may significantly affect the operations, the results of those operations, or the state of affairs of the consolidated entity or the company, in financial years subsequent to 30 June 2005.

27. REMUNERATION OF AUDITORS

During the year the auditor of the company earned the following remuneration:

	2005 $	2004 $	2005 $	2004 $
Audit services				
Auditors of the Company – Horwath Audit (WA) Pty Ltd	**25,939**	7,000	**25,939**	7,000
Taxation services				
Horwath (WA) Pty Ltd	**39,417**	15,650	**39,417**	15,650

28. RELATED PARTIES

Directors

The names of persons who were directors of Australian Renewable Fuels Limited during the financial year are as follows:

Robert Scott – Appointed as non executive Chairman on 24 December 2002
Darryl J Butcher – Appointed as managing director on 11 May 2001
Geoffrey F Towner – Appointed as director on 11 May 2001
Glyn Denison – Appointed as director on 8 June 2004
Graham Scott – Appointed as director on 28 September 2004

28. RELATED PARTIES – CONT'D

Transactions between related parties are on normal terms and conditions no more favourable to other parties unless otherwise stated. Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year-end.

The following table outlines the nature and amount of the elements of the remuneration of specified directors of the Company for the year ended 30 June 2005:

2005	Salary, fees & Commissions	Superannuation Contributions	Options	Non-cash benefits	Other	Total
	$	$	$	$	$	$
Director						
Mr D Butcher	225,580	-	-	-	-	225,580
Mr G Denison	73,374	-	-	-	-	73,374
Mr R Scott	8,333	-	-	-	-	8,333
Mr G Towner	5,000	-	-	-	-	5,000
Mr G Scott	5,000	-	-	-	-	5,000
	317,287	-	-	-	-	**317,287**

2004	Salary, fees & Commissions	Superannuation Contributions	Options	Non-cash benefits	Other	Total
	$	$	$	$	$	$
Director						
Mr D Butcher	150,000	-	-	-	-	150,000
Mr G Denison	27,600	-	-	-	-	27,600
	177,600	-	-	-	-	**177,600**

Directors' transactions with the Company or its controlled entities:

Services
A management contract was in place between the Company and NeoProTec Pty Ltd, a company in which Mr Butcher has an interest, whereby NeoProTec provides consulting services to the Company. The term of the agreement is for a period of 5 years from 1 July 2004.

A management contract was in place between the Company and ibdc Pty Ltd, a company in which Mr Denison has an interest, whereby ibdc provides consulting services to the Company. The term of the agreement was for a period of 1 year from 2 February 2004. The contract expired on 2 February 2005.

Directors' Shares 2005	Held at 1 July 2004	Acquired	Sold	Held at 30 June 2005
Mr Robert Scott*	-	-	-	-
Mr Darryl Butcher**	-	12,600,000	-	12,600,000
Mr Geoffrey Towner*	-	-	-	-
Mr Glyn Denison***	-	345,396	-	345,396
Mr Graham Scott****	-	-	-	-
Total	-	**12,945,396**	-	**12,945,396**

28. RELATED PARTIES – CONT'D

Notes:

* Mr Robert Scott and Mr Geoffrey Towner are directors of Amadeus which holds 34.27 million Shares in ARF. Mr Scott and Mr Towner also hold interests directly and indirectly in Amadeus Energy Limited.

** Mr Darryl Butcher was issued 12.6 million Shares in ARF pursuant to a Share Sale Agreement dated 10 January 2005 as varied by two deeds of variation dated 3 and 9 March 2005 between Mr Butcher as the vendor and ARF as purchaser, whereby Mr Butcher sold all of his shareholding in Shelly Nominees Pty Ltd to ARF.

*** 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. He jointly owns a further 2,729 shares with a third party.

**** Mr Graham Scott is a director of SANT which holds 16.15 million Shares in ARF.

The directors held no options over shares as at 30 June 2005.

The total payable to director-related entities during the financial year is included in Directors' Remuneration (Note 28) and is set out below:

	THE COMPANY	
	2005	2004
	$	$
NeoProtec Pty Ltd		
Base consulting fees	**225,580**	-
Ibdc Pty Ltd		
Base consulting fees	**68,374**	-

Remuneration Practices

The company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. The company may terminate service contracts immediately without cause. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate service contracts at any time. Any options not exercised before or on the date of termination will lapse.

Office Rental Costs

Amadeus Energy Limited provided office space for the Company during the financial year. Total costs were $8,774.

Wholly owned subsidiaries:

Details on interests in wholly-owned subsidiaries are set out at Note 25.

Wholly-owned group balances:

The aggregate amounts receivable from, and payable to, wholly-owned controlled entities by the Company at balance date:

Receivables		
Non-current		
- Other receivables	**9,671,576**	4,800
	9,671,576	4,800

29. SPECIFIED EXECUTIVES' REMUNERATION

2005	Salary, Fees & Commissions	Superannuation Contributions	Options	Other	Total
	$	$	$	$	$
Parent Entity Specified Executives' Remuneration					
Mr M Ger	102,113	-	19,111	-	121,224
	102,113	**-**	**19,111**	**-**	**121,224**

There were no specified executives in the prior year.

Specified executives' transactions with the Company or its controlled entities:

Services
A management contract is in place between the Company and Picola Holdings Pty Ltd, , a company in which Mr Ger has an interest, whereby Picola provides consulting services to the Company. The term of the agreement is for a period of 3 years from 30 November 2004.

Remuneration Options
Options granted as remuneration:

Executives	Granted number	Grant date	Value per option at grant date $	Terms & Conditions for Each Grant: Exercise price $	First exercise date	Last exercise date
Mr M Ger	75,000	18/10/2004	0.5148	0.50	18/10/2005	18/10/2006
	75,000	18/10/2004	0.2137	1.00	18/10/2006	18/10/2008
	75,000	18/10/2004	0.1387	1.50	18/10/2007	18/10/2009

30. COMMITMENTS

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2005	2004	**2005**	2004
	$	$	**$**	$
Operating lease commitments				
Future operating lease commitments not provided for in the financial statements and payable:				
Within one year	**90,349**	-	**90,349**	-
One year or later and not later than 2 years	**90,349**	-	**90,349**	-
Two years or later and not later than 5 years	**225,873**	-	**225,873**	-
	406,571	-	**406,571**	-

Capital Expenditure Commitments

In order to complete the construction of the two Biodiesel plants located at Adelaide, South Australia and Picton, Western Australia, the consolidated entity will be required to outlay amounts in the form of construction cost progress payments. These commitments are expected to be fulfilled in the normal course of business, are not provided for in the financial statements and are payable on the completion of construction milestones being achieved.

Within one year	**21,416,675**	-	-	-
One year or later and not later than 2 years	-	-	-	-
Two years or later and not later than 5 years	-	-	-	-
	21,416,675	-	-	-

Employee remuneration
There are no commitments under any employment contracts not provided for in the financial statements for directors or employees.

31. FINANCIAL INSTRUMENTS

(a) Credit risk exposures
The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, other than investments in shares, is generally the carrying amounts, net of any provisions for doubtful debts.

(b) Interest rate risk exposures
The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table. For interest rates applicable to each class or liability refer to individual notes to the financial statements.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the company intends to hold fixed rate assets and liabilities to maturity.

Financial year ended 30 June 2005

	Note	Floating interest rate $	FIXED INTEREST MATURING IN 1 year or less $	Between 1 and 5 years $	More than 5 years $	Non-interest bearing $	Total $
Financial assets							
Cash and deposits	5	7,263,515	24,903,016	-	-	-	32,166,531
- Current variable rate 5.20%							
Receivables – current	6	-	-	-	-	338,948	338,948
Other financial assets	7	-	-	-	-	488,711	488,711
		7,263,515	24,903,016	-	-	827,659	32,994,190
Weighted average interest rate							
1 year or less 5.53% - 5.54%							
Financial liabilities							
Trade and other creditors	14	-	-	-	-	2,724,105	2,724,105
Other	15&17	-	-	-	-	1,044,411	1,044,411
		-	-	-	-	3,768,516	3,768,516
Net financial assets (liabilities)		**7,263,515**	**24,903,016**	**-**	**-**	**(2,940,857)**	**29,225,674**

Financial year ended 30 June 2004

	Note	Floating interest rate $	FIXED INTEREST MATURING IN 1 year or less $	Between 1 and 5 years $	More than 5 years $	Non-interest bearing $	Total $
Financial assets							
Cash and deposits	5	-	-	-	-	12,180	12,180
- Current variable rate n/a							
Receivables – current	6	-	-	-	-	1,870	1,870
Other financial assets	7	-	-	-	-	25,665	25,665
		-	**-**	**-**	**-**	**39,715**	**39,715**
Financial liabilities							
Trade and other creditors	14	-	-	-	-	3,250	3,250
Other	16	-	-	-	-	3,302,813	3,302,813
		-	-	-	-	3,306,063	3,306,063
Net financial assets (liabilities)		**-**	**-**	**-**	**-**	**(3,266,348)**	**(3,266,348)**

31. FINANCIAL INSTRUMENTS – CONT'D

	CONSOLIDATED 2005 $	2004 $
Reconciliation of net financial assets to net assets		
Net financial assets/(liabilities) as above	**29,225,674**	(3,266,348)
Non-financial assets and liabilities		
- Inventories	**30,387**	-
- Intangible assets	**15,599,998**	-
- Prepayments	**-**	-
- Property, plant & equipment	**10,431,461**	-
- Development expenditure	**3,283,800**	2,845,909
- Deposits	**-**	294,348
- Provisions	**(1,936,420)**	-
Net assets per balance sheet	**56,634,900**	(126,091)

Net fair value of financial assets and liabilities

On balance sheet
The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market price where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	2005 Carrying Amount	2005 Net fair value	2004 Carrying Amount	2004 Net fair Value
On-balance sheet financial instruments				
Financial assets				
- Trade debtors	**71,331**	71,331	**1,870**	1,870
- Deposits	**-**	-	**294,348**	294,348
- Other debtors	**267,617**	267,617	**-**	-
- Prepayments	**24,300**	24,300	**-**	-
- Other assets	**32,630,942**	32,630,942	**12,180**	12,180
	32,994,190	32,994,190	**308,398**	308,398
Financial liabilities				
- Other loans	**-**	-	**3,302,813**	3,302,813
- Other liabilities	**3,188,516**	3,188,516	**3,250**	3,250
	3,188,516	3,188,516	**3,306,063**	3,306,063

31. FINANCIAL INSTRUMENTS – CONT'D

Forward Exchange Contracts

The economic entity enters into forward exchange contracts to buy specified amounts of foreign currencies in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect the economic entity against unfavourable exchange rate movements.

At balance date, the details of outstanding forward exchange contracts are:

Buy Euros	Sell Australian Dollars		Average Exchange Rates	
Settlement	2005	2004	2005	2004
	$	$	$	$
Less than 6 months	3,276,015	-	0.5769	-
6 months to 1 year	1,028,796	-	0.5730	-

32. SEGMENT INFORMATION

Industry Segments
The consolidated entity has one primary business segment, that being development of Biodiesel facilities.

Geographical Segments
The company's operations are based primarily in Australia.

33. EMPLOYEE OPTION OWNERSHIP SCHEME

The Company has an employee option incentive plan approved by the board of directors on 14 January 2005.

The Company had a total of 225,000 options over ordinary shares in the Company at 30 June 2005.

During the current financial year 225,000 options, with varying terms and conditions, were issued to employees (2004: nil).

No options were issued to directors during the financial year (2004: nil).

33. EMPLOYEE OPTION OWNERSHIP SCHEME - CONT"D

Information with respect to the number of options granted under the employee share incentive scheme is as follows:

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2005 No.	2004 No.	2005 No.	2004 No.
Balance at the beginning of the year	-	-		-
Issued during the year *	75,000	-	75,000	-
Issued during the year **	75,000	-	75,000	-
Issued during the year ***	75,000	-	75,000	-
Converted/ disposed of during the year	-	-	-	-
Expired during the year	-	-	-	-
Balance at the end of the financial year	225,000	-	225,000	-

* Exercise price of $0.75 and expiry date 30 November 2009
** Exercise price of $1.00 and expiry date 30 November 2009
*** Exercise price of $1.50 and expiry date 30 November 2009

There are no voting or dividend rights attached to the options.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2005 No.	2004 No.	2005 No.	2004 No.
Number of employees & eligible persons included in the scheme at year end	1	-	1	-

The closing market price of an ordinary share of Australian Renewable Fuels Limited on the Australian Stock Exchange at 30 June 2005 was $1.19 (2004: not applicable).

34. COMPANY INFORMATION

The parent company is incorporated and domiciled in Australia. The principal activity of Australian Renewable Fuels Limited is the development and operations of commercial scale biodiesel fuel production facilities in Australia.

The registered office of the company is Suite 1B, Level 5 South Shore Piazza, 85 South Perth Esplanade, South Perth, Western Australia.

35. CONTINGENT LIABILITIES

There were no contingent liabilities outstanding as at 30 June 2005.

36. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

The Australian Accounting Standards Board ("AASB") is adopting the International Financial Reporting Standards ("IFRS") for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issue Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee.

36. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS – CONT'D

These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ending December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The Company has been working on the transition to AIFRS to gather all the required financial information. Progress has been reported to the Audit Committee. An analysis of all of the AIFRS has been undertaken and identified any changes required to accounting policies that are most appropriate to the Company.

The known or reliably estimable impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. The expected financial effects of adopting AIFRS are shown for each line item in the Statements of Financial Performance and Statements of Financial Position, with descriptions of the differences. No material impacts are expected in relation to the Statements of Cash Flows.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the Company prepares its first full set of AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

36. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS – CONT'D

Impact on the Statements of Financial Performance

		CONSOLIDATED			THE COMPANY		
	Note	Existing GAAP $	Effect of change $	AIFRS $	Existing GAAP $	Effect of change $	AIFRS $
Revenue from operating activities		75,162	-	75,162	75,162	-	75,162
Revenue from outside operating activities		723,649	-	723,649	723,369	-	723,369
Total revenue		798,811	-	798,811	798,531	-	798,531
Cost of goods sold		(63,147)	-	(63,147)	(63,147)	-	(63,147)
Administrative expenses		(937,453)	(19,111)	(956,564)	(927,019)	(19,111)	(946,130)
Employee expenses		(162,083)	-	(162,083)	(162,083)	-	(162,083)
Other expenses from ordinary activities		(44,055)	-	(44,055)	(39,046)	-	(39,046)
Earnings before interest, tax, depreciation and amortisation		(407,927)	(19,111)	(427,038)	(392,764)	(19,111)	(411,875)
Depreciation		(10,440)	-	(10,440)	(10,440)	-	(10,440)
Borrowing costs		(79,386)	-	(79,386)	(79,386)	-	(79,386)
		(89,826)	-	(89,826)	(89,826)	-	(89,826)
Profit/(loss) from ordinary activities before related income tax expense		(497,753)	(19,111)	(516,864)	(482,590)	(19,111)	(501,701)
Income tax expense relating to ordinary activities		-	-	-	-	-	-
Profit/(loss) from ordinary activities after related income tax expense		(497,753)	(19,111)	(516,864)	(482,590)	(19,111)	(501,701)
Net (profit)/loss attributable to outside equity interests		(357)	-	(357)	-	-	-
Net profit/(loss) attributable to members of the parent entity		(498,110)	(19,111)	(517,221)	(482,590)	(19,111)	(501,701)
Non-owner transaction changes in equity:							
Net exchange difference on translation of financial statements of self-sustaining foreign operations		-	-	-	-	-	-
Total changes in equity from non-owner related transactions attributable to members of the parent entity		(498,110)	(19,111)	(517,221)	(482,590)	(19,111)	(501,701)
Basic earnings per share (cents per share)		(1.076)		(1.117)			
Diluted earnings per share		(1.076)		(1.117)			
Earnings per share (EBITDA)		(0.881)		(0.922)			

36. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS – CONT'D

Impact on the Statements of Financial Position

		CONSOLIDATED			THE COMPANY		
	Note	Existing GAAP $	Effect of change $	AIFRS $	Existing GAAP $	Effect of change $	AIFRS $
CURRENT ASSETS							
Cash assets		32,166,531	-	32,166,531	30,201,180	-	30,201,180
Receivables		338,948	-	338,948	336,799	-	336,799
Other		24,300	-	24,300	24,300	-	24,300
Inventories		30,387	-	30,387	30,387	-	30,387
Total current assets		32,560,166	-	32,560,166	30,592,666	-	30,592,666
NON-CURRENT ASSETS							
Receivables		-	-	-	25,271,577	-	25,271,577
Evaluation and development		3,283,800	-	3,283,800	3,283,800	-	3,283,800
Other		-	-	-	-	-	-
Property, plant and equipment		10,431,461	-	10,431,461	780,839	-	780,839
Financial assets		-	-	-	5	-	5
Intangible assets		15,599,998	-	15,599,998	-	-	-
Total non-current assets		29,315,529	-	29,315,529	29,336,221	-	29,336,221
Total assets		**61,875,425**	-	**61,875,425**	**59,928,887**	-	**59,928,887**
CURRENT LIABILITIES							
Payables		2,724,105	-	2,724,105	2,545,437	-	2,545,437
Provisions		4,900	-	4,900	4,900	-	4,900
Total current liabilities		2,729,005	-	2,729,005	2,550,337	-	2,550,337
NON-CURRENT LIABILITIES							
Non-interest bearing liabilities		-	-	-	-	-	-
Payables		2,511,520	-	2,511,520	724,840	-	724,840
Total non-current liabilities		2,511,520	-	2,511,520	724,840	-	724,840
Total liabilities		5,240,525	-	5,240,525	3,275,177	-	3,275,177
Net assets		**56,634,900**	-	**56,634,900**	**56,653,710**	-	**56,653,710**
EQUITY							
Contributed equity		57,259,460	-	57,259,460	57,259,460	-	57,259,460
Reserves		-	**19,111**	19,111	-	**19,111**	19,111
Accumulated profits/(losses)		(624,560)	**(19,111)**	(643,671)	(605,750)	**(19,111)**	(624,861)
Total parent entity interest		**56,634,900**	-	**56,654,011**	**56,653,710**	-	**56,672,821**
Outside equity interests		-	-	-	-	-	-
Total equity		**56,634,900**	-	**56,634,900**	**56,653,710**	-	**56,653,710**

36. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS – CONT'D

Reconciliation of profit after tax under AGAAP to that under AIFRS:

		Consolidated Entity $
Total loss after tax under AGAAP		498,110
Recognition of share-based payments	(b)	19,111
Total loss after tax under AIFRS		**517,221**

Reconciliation of total equity as presented under AGAAP to that under AIFRS:

		Consolidated Entity $
Total equity under AGAAP		56,634,900
Adjustments to equity:		
Recognition of share-based payments	(b)	(19,111)
Increase in share-based payment reserve		19,111
Total equity under AIFRS		**56,634,900**

Notes explaining the impacts on the statements of financial performance and statements of financial position

(a) Income tax
Currently the consolidated entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit.

Under *AASB 112: Income taxes*, the consolidated entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

There is likely to be no impact on the change of accounting policy.

(b) Equity-based compensation
Currently the consolidated entity does not recognise an expense for equity-based compensation in the financial statements.

Under *AASB 2: Share-based payment*, from 1 July 2004 the consolidated entity is required to recognise an expense for those share options that were issued to employees and directors after 7 November 2002 but had not vested by 1 January 2005.

The likely impact from the change in accounting policy would be that accumulated losses would have been $19,111 higher with a corresponding increase in the share-based payment reserve. For the year ended 30 June 2005, the employee benefits expense would have been $19,111 higher, with a corresponding movement in the share-based payment reserve.

(c) Impairment of assets
Currently the consolidated entity determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal

36. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS – CONT'D

Under *AASB 136: Impairment of assets*, the recoverable amount of an asset is determined as the higher of fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets.

There is likely to be no impact on the change of accounting policy, however, it is likely that this change in accounting policy will lead to impairments being recognised more often.

(d) Intangible assets – royalty buy-back
Currently intangible assets are to be amortised over the future Biodiesel production of the consolidated entity, not exceeding 20 years.

Under *AASB 138: Intangible assets*, intangible assets with a definite useful life must be amortised over that useful life. The intangible asset must also be tested for impairment where there is an indication that the asset has been impaired and this must be expensed as an impairment loss.

The Directors have assessed all assets for impairment and have determined that the impact of IFRS on opening retained earnings at 1 July 2004 and at 30 June 2005 is Nil.

(e) Derivative financial instruments
Currently the consolidated entity does not recognise derivative financial instruments in the financial statements.

Under *AASB 139: Financial instruments*: Recognition and measurements, the derivative financial instruments will be recorded in the financial statements.

AASB 1 provides an election whereby the requirements of AASB 139 dealing with financial instruments are not required to be applied to the first AIFRS comparative year and the first time adoption of this standard will apply from 1 July 2005. The economic entity has decided that it will adopt this election and will not restate comparative information for the financial year ending 30 June 2005.

(f) Research and development expenditure
Currently the consolidated entity capitalises research and development expenditure to the statement of financial position where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover these deferred costs.

Under *AASB 138: Intangible assets*, costs associated with the research phase of the development of an asset must be expensed and development expenditure can only be capitalised where it meets certain criteria.

There is likely to be no impact on the change of accounting policy as no research costs were capitalised at 1 July 2004 or 30 June 2005 and development expenditure met the criteria of AASB 138.

DIRECTORS' DECLARATION

The directors of Australian Renewable Fuels Limited declare that:

a) In the directors' opinion, the financial statements and notes for the financial year ended 30 June 2005 are in accordance with the Corporations Act 2001, including:

   (i) section 296 (compliance with accounting standards); and

   (ii) section 297 (true and fair view); and

b) In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

c) The directors have been given the declarations required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Robert N Scott
Non-Executive Chairman

Dated at Perth this the 28th day of September 2005.

Horwath

Horwath Audit (WA) Pty Ltd
ABN 79 112 284 787
Chartered Accountants
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Facsimile (08) 9380 8499

28 September 2005

The Board of Directors
Australian Renewable Fuels Ltd
PO Box 837
SOUTH PERTH WA 6951

AUDITOR'S INDEPENDENCE DECLARATION

This declaration is made in connection with our audit of the financial report of Australian Renewable Fuels Ltd and Controlled Entities for the year ended 30 June 2005 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this audit.

Yours faithfully
HORWATH
Audit (WA) Pty Ltd

HORWATH.
Glyn O'Brien

GLYN O'BRIEN
Director

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Independent audit report to members of Australian Renewable Fuels Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, and accompanying notes to the financial statements for both Australian Renewable Fuels Limited (the company) and the consolidated entity, and the directors' declaration for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Horwath

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of Australian Renewable Fuels Ltd is in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Dated at Perth on this the 28th day of September 2005.

HORWATH
Audit (WA) Pty Ltd

HORWATH.
GLYN O'BRIEN

GLYN O'BRIEN
Director

SHAREHOLDERS INFORMATION

The names of the substantial shareholders listed in the holding company register as at 31 August 2005 are

Name	Shares held	% of total
Amadeus Energy Limited	34,266,667	31.73
Local Government	16,123,333	14.93
Darryl Butcher	12,600,000	11.67
National Nominees Limited	5,872,815	5.44
ANZ Nominees Limited (Cash Income a/c)	5,541,175	5.13

Voting rights

The shares carry the right to one vote for each share held.

Distribution of shareholders as at 31 August 2005

Number of ordinary shares	No. of shareholders	% of issued capital held
1 – 1,000	95	0.07
1,001 – 5,000	562	1.59
5,001 – 10,000	235	1.83
10,001 – 100,000	232	5.38
100,001 and over	37	91.13
Total		**100.00**

The number of shareholdings held in less than marketable parcels is 432.

The 20 largest shareholders of fully paid ordinary shares as at 5 September 2005

Name	Shares held	% of total
Amadeus Energy Limited	34,266,667	31.73
Local Government	16,123,333	14.93
Darryl Butcher	12,600,000	11.67
National Nominees Limited	5,872,815	5.44
ANZ Nominees Limited (Cash Income a/c)	5,541,175	5.13
Citicorp Nominees Pty Limited	4,230,000	3.92
M F Custodians Ltd	4,062,459	3.76
Citicorp Nominees Pty Ltd	3,500,000	3.24
J P Morgan Nominees Australia Limited	1,282,875	1.19
Equity Trustees Limited	1,271,000	1.18
Citicorp Nominees Pty Limited	1,204,735	1.12
J P Morgan Nominees Australia Limited	900,000	0.83
National Nominees Limited	870,000	0.81
ANZ Nominees Limited	861,500	0.80
IAG Nominees Pty Ltd	800,000	0.74
Michael Bushell	543,700	0.50
Link Traders (Aust) Pty Ltd	500,000	0.46
CSFB Fourth Nominees Pty Ltd	493,577	0.46
IAG Nominees Pty Ltd	400,000	0.37
HSBC Custody Nominees (Australia) Limited	295,036	0.27
Total	**95,618,872**	**88.55**