arfuels
AUSTRALIAN RENEWABLE FUELS LIMITED

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ABN 66 096 782 188

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Wednesday 13 September 2006

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

Dear Sir/Madam,

PRELIMINARY FINAL REPORT FINANCIAL YEAR ENDED 30 JUNE 2006

The Directors of Australian Renewable Fuels Limited (ASX Code ARW) ("Arfuels") herewith lodge the Preliminary Final Report (Appendix 4E) for the financial year ended 30 June 2006.

The principal activity of Arfuels during the 2006 financial year was the construction and commissioning of its two planned biodiesel plants at Largs Bay, South Australia and Picton, Western Australia. At both sites, construction costs were in excess of forecasts. This is symptomatic of the exceptionally high-cost environment in construction throughout Australia during the past few years.

After the opening of the Adelaide plant on 23 March this year, we commenced the production ramp and at the time of reporting, have achieved a production rate of up to 90% of the plant's design capacity of 40,000 tonnes per annum. Achievement of 100% of design capacity is expected in the near future.

Central to Arfuels' production and marketing policies, is the absolute requirement to deliver biodiesel that complies with the Australian Biodiesel Standard. All sales of biodiesel to date by Arfuels have fulfilled this requirement. Familiarity with handling variable feedstocks, in addition to some minor plant modifications to achieve quality and volume objectives, have played a role in the production ramp-up of both sites. As these items are synchronised, sustainable throughput is closing in on design capacity rates.

The Picton plant, which was officially opened 4 months after Largs Bay, is currently in the process of production ramp and we expect to achieve production of biodiesel in commercial volumes during this month (September).

Arfuels has successfully processed a range of feedstocks including unrefined canola oil, tallow and used cooking oil. This is a significant step towards lowering feedstock costs in production. Arfuels has taken this longer route to ensure its business can process a range of oils and fats which will remove reliance on specific feedstocks. As announced in early August, Arfuels achieved at specification, biodiesel using a blend of 80% tallow and 20% refined canola oil.

Arfuels has commenced sales of commercial volumes of biodiesel into the Australian market from its Largs Bay plant. Sales from Picton are expected shortly.

Arfuels remains committed to the roll-out of five plants in Australia with total annual production capacity in excess of 225 million litres of biodiesel. The Arfuels Group remains excited about the proposed 50/50 joint venture with Transpacific Industries Limited for the establishment of a biodiesel facility in Brisbane. The feasibility study on the project is almost complete and a decision to commit is expected shortly thereafter.

RESULTS OF OPERATION

This report is based on accounts that are currently in the final stages of being audited. To the best of our knowledge, the accounts are not the subject of any dispute with, or likely qualification by, the auditors.

The loss after tax for the year ended 30 June 2006 amounted to $3.508 million.

The financial results for the 2006 year were heavily influenced by the protracted construction and commissioning activities at the two sites. Revenue from biodiesel sales during the year amounted to $187,061. Revenue from outside normal operating activities ($1,325,888) was comprised of interest income ($861,753) and the recognition of minor grant income ($464,135). Commercial volume biodiesel sales commenced after 30 June 2006 and are showing steady signs of growth.

Arfuels received the first instalment ($1.787 million) of the Federal Government Biofuels Capital Infrastructure Grant during the 2005 financial year. This amount has not been treated as income by the Group and is reflected as a non-current liability. Arfuels fully expects to receive the balance of the Grant ($5.4 million) during the 2006-07 financial year.

The amount shown as "Intangibles" ($32 million) includes the Biodiesel Royalty Buy-Back of $22.3 million, Capitalised Development costs of $3.2 million and expansion expenditure amounting to $6.5 million. Site operating costs and corporate office overheads are substantially within forecast and close attention is being paid to ensure that these costs stay within acceptable levels.

No dividends were declared or paid during the 2006 financial year.

The 2007 financial year promises to be a significant turning point in the Group's operating performance. Whilst major expansion initiatives both within Australia and the United States are well underway, Arfuel's core management team remains firmly committed to the successful operation of the existing two plants in Australia. This commitment to the Australian operations will be evidenced by organisational restructuring in the immediate future.

Max Ger
Finance Director / Company Secretary
Australian Renewable Fuels Limited
Tel: (08) 9363 3500

Appendix 4E

Preliminary final report

1. Company details

Name of entity

Australian Renewable Fuels Limited

ABN or equivalent company reference	Financial year ended ('current year')	Financial year ended ('previous year')
66 096 782 188	30 June 2006	30 June 2005

2. Results for announcement to the market

					$
2.1	Revenues from operations	up	89%	to	1,512,949
2.2	(Loss) from operations after tax attributable to members	up	578%	to	(3,507,781)
2.3	Net (loss) for the period attributable to members	up	578%	to	(3,507,781)

2.4	**Dividends**	**Amount per security**	**Franked amount per security**
	Final dividend proposed	nil	nil
	Interim dividend	nil	nil

2.5	Record date for determining entitlements to the final dividend.	n/a

2.6 Brief explanation of any of the figures in 2.1 to 2.4 above necessary to enable the figures to be understood.

(a) The Group's major activity during the financial year ended 30 June 2006 was the construction of its Biodiesel plants in Largs Bay, South Australia and Picton, Western Australia. Both plants have now been commissioned and have commenced production.
(b) The Group's revenue during the financial year ended 30 June 2006 was derived from interest received ($861,753), sales of Biodiesel ($187,061) and Government grants ($464,135).
(c) No dividends were declared or paid during the financial year ended 30 June 2006.

3. Consolidated income statement

	Current year $	Previous year $
Revenues from continuing operations	187,061	75,162
Revenue from outside operating activities	1,325,888	723,649
Expenses from ordinary activities, excluding borrowing costs (refer note 3.1)	(7,452,469)	(1,236,289)
Borrowing costs	(102,683)	(79,386)
(Loss) before income tax	**(6,042,203)**	**(516,864)**
Income tax benefit	2,534,422	-
Net (loss) for the year	**(3,507,781)**	**(516,864)**
Net (loss) attributable to minority interests	-	(357)
Net (loss) attributable to members	**(3,507,781)**	**(517,221)**

Notes to the consolidated income statement

3.1 Expenses from ordinary activities (excluding borrowing costs)

Details of "Expenses from ordinary activities" by nature	Current year $	Previous year $
Cost of sales	(956,025)	(63,147)
Employee benefits expense	(2,706,391)	(162,083)
Depreciation and amortisation expense	(116,165)	(10,440)
Other expenses from ordinary activities	(3,673,888)	(1,000,619)
Total Expenses	**(7,452,469)**	**(1,236,289)**

3.2 Other disclosures relating to the income statement

	Current year $	Previous year $
Net gain/(loss) on the disposal of assets:		
- property, plant and equipment	-	-
Net revenue/(expense) since the beginning of the reporting period resulting from deductions from the carrying amounts of assets :		
- amortisation of non-current assets	(41,048)	-
- depreciation of non-current assets	(75,117)	(10,440)

3.3 Revision of Accounting Estimates

Details of Revision of Accounting Estimates in accordance with AASB 118
n/a

4. Condensed consolidated balance sheet	Current year $	Previous year $
Current assets		
Cash and cash equivalents	10,023,115	32,166,531
Trade and other receivables	230,168	338,948
Other current assets	938,410	488,711
Inventories	2,543,045	30,387
Total current assets	**13,734,738**	**33,024,577**
Non-current assets		
Property, plant and equipment	44,399,758	10,431,461
Deferred tax asset	3,830,641	-
Intangibles	31,998,681	25,569,511
Total non-current assets	**80,229,080**	**36,000,972**
Total assets	**93,963,818**	**69,025,549**

	Current year $	Previous year $
Current liabilities		
Payables	4,358,138	2,724,105
Interest bearing loans & borrowings	23,681	-
Provisions	159,984	4,900
Other payables	-	464,411
Total current liabilities	**4,541,803**	**3,193,416**
Non-current liabilities		
Interest bearing loans & borrowings	75,289	-
Non-interest bearing liabilities	650,000	580,000
Deferred tax liabilities	6,687,699	6,685,713
Federal government grant	1,786,680	1,931,520
Total non-current liabilities	**9,199,668**	**9,197,233**
Total liabilities	**13,741,471**	**12,390,649**
Net assets	**80,222,347**	**56,634,900**
Equity		
Contributed equity	83,778,829	57,259,460
Reserves	594,970	19,111
Retained profits/(accumulated losses)	(4,151,452)	(643,671)
Equity attributable to members of the parent entity	**80,222,347**	**56,634,900**
Minority interests in controlled entities	-	-
Total equity	**80,222,347**	**56,634,900**

5. Condensed consolidated statement of cash flows

	Current year $	Previous year $
Cash flows from operating activities		
Cash receipts in the course of operations	295,841	18,746
Cash payments in the course of operations	(8,304,455)	(1,885,078)
Interest received	867,086	728,369
Grant income	319,295	-
Borrowing costs	(102,683)	(79,386)
Other revenue	-	5,000
Net cash (used) in operating activities	**(6,924,916)**	**(1,212,349)**
Cash flows from investing activities		
Payment for the purchase of a subsidiary	-	(1,000,000)
Payments for purchases of property, plant and equipment	(34,623,414)	(10,547,949)
Payments for intangibles	(6,470,218)	-
Net cash (used) in investing activities	**(41,093,632)**	**(11,547,949)**
Cash flows from financing activities		
Proceeds from issues of shares – net	25,225,132	42,789,977
Proceeds from borrowings	3,000,000	-
Repayments of borrowings	(3,000,000)	-
Government loan	650,000	2,124,672
Net cash provided by financing activities	**25,875,132**	**44,914,649**
Net increase/(decrease) in cash held	**(22,143,416)**	**32,154,351**
Cash at beginning of period	32,166,531	12,180
Cash at end of period	**10,023,115**	**32,166,531**

5.1 Non-cash financing and investing activities

Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows are as follows.

Arising from the adoption of Australian International Financial Reporting Standards, the Arfuels Group has recognised a deferred tax liability on consolidation relating to the biodiesel royalty buy-back intangible asset. This adjustment, which has no cash flow impact, has had the effect of increasing the carrying value of that asset by $6.69m to $22.28m.

5.2 Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the condensed consolidated statement of cash flows) to the related items in the accounts is as follows.	**Current year** **$**	**Previous year** **$**
Cash on hand and at bank	8,914,115	7,263,515
Deposits at call	1,109,000	24,903,016
Total cash at end of period	**10,023,115**	**32,166,531**

5.3 Reconciliation of profit from ordinary activities after income tax to net cash inflow from operating activities

	Current year **$**	**Previous year** **$**
Net (Loss)	(3,507,781)	(517,221)
Depreciation	75,117	10,440
Amortisation	41,048	-
Share options expense	575,859	-
(Increase) decrease in assets:		
Decrease/(increase) in trade debtors	108,780	(337,078)
(Increase) in inventories	(2,512,658)	(30,387)
Decrease/(increase) in other current assets	(449,669)	1,365
(Increase) in deferred tax assets	(2,536,408)	-
Increase/(decrease) in liabilities:		
Increase in trade creditors and accruals	1,588,137	719,782
Increase in employee entitlements accruals	155,084	4,900
Increase in deferred tax liabilities	1,986	-
Other	(464,411)	(1,064,150)
Net cash inflow/(outflow) from operating activities	**(6,924,916)**	**(1,212,349)**

6. Dividends

6.1 Individual dividends per security

			Date dividend is payable	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
	Final dividend:	Current year	-	-	-	-
		Previous year	-	-	-	-
	Interim dividend:	Current year	-	-	-	-
		Previous year	-	-	-	-

6.2 Total dividend per security (interim *plus* final)

	Current year	Previous year
Ordinary securities	-	-

7. Dividend Reinvestment Plans

The dividend or distribution plans shown below are in operation.

n/a

The last date(s) for receipt of election notices for the dividend or distribution plans	n/a

Any other disclosures in relation to dividends (distributions).

n/a

8. Consolidated retained profits

	Current year $	Previous year $
Retained losses at the beginning of the financial year	643,671	126,450
Net loss attributable to members	3,507,781	517,221
Net transfers from/(to) reserves	-	-
Net effect of changes in accounting policies	-	-
Dividends and other equity distributions paid or payable	-	-
Retained losses at the end of the financial year	4,151,452	643,671

9. NTA backing	Current year ($)	Previous year ($)
Net tangible asset backing per ordinary security	$0.39	$0.38

10.1 Control gained over entities

Name of entity (or group of entities)	n/a
Date control gained	
Contribution of such entities to the reporting entity's profit/ (loss) from ordinary activities during the period (where material).	n/a
Profit(loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period.	n/a

10.2 Loss of control over entities

Name of entity (or group of entities)	n/a
Date control lost	n/a
Contribution of such entities to the reporting entity's profit/ (loss) from ordinary activities during the period (where material).	n/a
Consolidated profit/(loss) from ordinary activities of the controlled entity (or group of entities) whilst controlled during the whole of the previous corresponding period (where material).	n/a

11 Details of associates and joint venture entities

Name of associate/joint venture	Reporting entity's percentage holding	
	Current year	Previous year
	n/a	n/a

Group's aggregate share of associates' and joint venture entities' profits/(losses) :	**Current year $**	**Previous year $**
Profit/(loss) from ordinary activities before tax	-	-
Income tax on ordinary activities	-	-
Profit/(loss) from ordinary activities after tax	-	-
Extraordinary items net of tax	-	-
Net profit/(loss)	-	-
Adjustments	-	-
Share of net profit/(loss) of associates and joint venture entities	-	-

12. Significant Information

During the 2006 financial year the ARF Group was engaged largely in construction activities at its Adelaide and Picton sites. The production ramp at the Adelaide site is well underway and Picton is progressing steadily to commercial volumes. In the early part of the current financial year, the ARF Group commenced biodiesel sales to high volume commercial customers.

13. Commentary on results for the period

The results for the 2006 financial year were heavily influenced by the protracted construction and commissioning activities undertaken at both the Adelaide and Picton plants. The initial high costs of production relative to revenue from continuing operations was higher than expected during the start-up and production ramp phases.

The operating loss for the current year has been partially reduced by the recognition of taxation loss benefits from the current and prior years.

14. This report is based on +accounts to which one of the following applies.
(Tick one)

☐	The +accounts have been audited.	☐	The +accounts have been subject to review.
		☐	The +accounts are in the process of being reviewed.
☑	The +accounts are in the process of being audited.	☐	The +accounts have *not* yet been audited or reviewed.

15. If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, details are described below

The audit is substantially completed and the Company is not aware of any disputes or proposed qualifications to the accounts.

16. If the accounts have been audited or subject to review and are subject to dispute or qualification, details are described below

n/a

Sign here: .... Date: .....13 September 2006 ....
(Finance Director/Company Secretary)

Print name: ....Max Louis Ger..