



AUSTRALIAN RENEWABLE
FUELS LIMITED

**AUSTRALIAN RENEWABLE
FUELS LIMITED**

ABN 66 096 782 188

SUITE 1B, LEVEL 5
SOUTH SHORE PIAZZA
85 SOUTH PERTH ESPLANADE
SOUTH PERTH WA 6151

P.O. BOX 837
SOUTH PERTH WA 6951

TEL +61 8 9363 3500
FAX +61 8 9363 3511
E-MAIL info@arfuels.com.au
WEB www.arfuels.com.au

Friday 28 September 2007

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

Dear Sir/Madam,

AUDITED FINANCIAL REPORT - YEAR ENDED 30 JUNE 2007

The Directors of Australian Renewable Fuels Limited (ASX Code ARW) ("ARF") herewith lodge the Audited Annual Financial Report for the Company and its controlled entities for the year ended 30 June 2007.

Yours faithfully

A handwritten signature in black ink, appearing to read "M. Ger", with a horizontal line underneath.

Max Ger
Company Secretary



*AUSTRALIAN RENEWABLE
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**ANNUAL REPORT FOR THE
YEAR ENDED 30 JUNE 2007**

AUSTRALIAN RENEWABLE FUELS LIMITED

CONTENTS

Corporate Directory	3
Directors' Report.....	4
Corporate Governance	16
Financial Statements	18
Directors' Declaration	58
Auditor's Independence Declaration	59
Independent Audit Report	60
Shareholders information	62

AUSTRALIAN RENEWABLE FUELS LIMITED

CORPORATE DIRECTORY

Directors

A J Mulgrew	Chairman
R N Scott	Deputy Chairman
J E Lillywhite	Managing Director (appointed 21/9/07)
G Denison	Director
M L Ger	Director
G M Scott	Director
G F Towner	Director

Solicitors

Blakiston & Crabb
1202 Hay Street
West Perth WA 6005

DLA Phillips Fox
Level 32, 44 St Georges Terrace
Perth WA 6000

Company Secretary

M L Ger

Auditors

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay Street
Subiaco, WA, 6008

Principal place of business & 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 Share Registry

PO Box 837
South Perth
Western Australia, 6951

Computershare Investor Services Pty Limited
GPO Box D182
Perth WA 6840

Stock Exchange Listing

Australian Stock Exchange
ASX Code: ARW

AUSTRALIAN RENEWABLE FUELS LIMITED

DIRECTORS' REPORT

Your directors present their report on the Company and its controlled entities ("the Group") for the financial year ended 30 June 2007.

Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Alan J Mulgrew - Non-Executive Chairman (Age 60) - BA (Mgmt), Dip Corp Fin, GRAICD, JP

Experience and expertise

Alan was appointed on 1 July 2006 as an Independent Non-Executive Chairman. Alan has had over 30 years' experience as a senior aviation executive both within Australia and overseas, including responsibility for Perth and Sydney Airports. Since leaving Sydney Airport in 1997, Alan has provided strategic advice to numerous major institutions and served as a non-executive board member on a number of high profile boards spanning Aviation, Energy, Construction, Infrastructure and Tourism. Alan is currently a Non-Executive Director of BAC Holdco Pty Ltd, Doric Group Holdings Pty Ltd and Adelaide Airport Limited. He was formerly Chairman of Tourism Western Australia, Chairman of Western Carbon Pty Ltd and a Non-Executive Director of Western Power Corporation. Alan has also served as Chairman or as a member on various Audit Risk Management Committees and as a member of Governance and Remuneration Committees.

Other current directorships in listed companies

None.

Former directorships in listed companies in last 3 years

None.

Special responsibilities

Chairman of the Board

Robert N Scott - Non-Executive Deputy Chairman (Age 60)

FCA, MAICD

Experience & expertise

Mr Scott serviced as Chairman of the Group for the period 24 December 2002 to 30 June 2006. He has over 36 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

Chairman - bio-MD Limited (appointed June 1999); Non-Executive Director of Amadeus Energy Limited (appointed October 1996); Homeloans Limited (appointed November 2000) and Neptune Marine Services (appointed July 2007).

Former directorships in listed companies in last 3 years

Evans & Tate Limited (July 2005 to August 2007)

Special responsibilities

Deputy Chairman of the Board

John E Lillywhite - Managing Director, Chief Executive Officer (Age 51)

MBA (Monash) & BCom (UWA)

Experience & expertise

Mr Lillywhite was appointed to the position of Chief Executive Officer - Australia in January, 2007 and subsequently appointed to the ARF Board as Managing Director on 21 September 2007.

Before joining ARF, Mr Lillywhite had established a reputation as one of Australia's leading energy executives, most recently in the position of founding Chief Executive of Verve Energy, Western Australia's major power generation company. Prior to that he was successively General Manager Retail and General Manager Generation, for Western Power. He began his working life with Telecom Australia and held senior management positions in telecommunications in Australia and overseas before establishing his career in energy.

AUSTRALIAN RENEWABLE FUELS LIMITED

His move to ARF has fulfilled a long-standing desire to participate directly in the renewable energy field for which he has a strong passion and a record of success.

Other current directorships in listed companies

None.

Former directorships in listed companies in last 3 years

None.

Special responsibilities

Managing Director
Chief Executive Officer

Glyn Denison - Non-Executive Director (Age 55)

BE

Experience & expertise

Mr Denison is CEO and Managing Director of Lignor Ltd, the stranded lumber business being established in Western Australia. He is a civil engineer and brings to the Company over 31 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. He has served as the Managing Director of ERG Electronics Ltd; Business Planning Manager for Bunnings Forest Products Ltd (now part of the Wesfarmers Group) and was Regional Manager for Willing & Partners - 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.

Other current directorships in listed companies

OBJ Limited

Former directorships in listed companies in last 3 years

MEDEC Ltd (Resigned 2005)

Special responsibilities

None.

Max L Ger - Executive Director and Company Secretary (Age 60)

Experience & expertise

Mr Ger is a qualified accountant with over 36 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.

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.

During the past 2½ years, Mr Ger has been the Finance Director and Chief Financial Officer of the Australian Renewable Fuels Group of Companies. He has also assisted with the marketing of the company's biodiesel production and undertook the role of Acting General Manager prior to the appointment of the new CEO. Of recent, Mr Ger has undertaken certain tasks relating to ARF's international interests.

Other current directorships in listed companies

None.

Former directorships in listed companies in last 3 years

None.

Special responsibilities

Chief Financial Officer
Finance Director
Company Secretary

AUSTRALIAN RENEWABLE FUELS LIMITED

Graham M Scott - Non-Executive Director (Age 62) **B Ec (Hons)**

Experience & expertise

Mr Scott is senior lecturer of Economics at the Flinders University of South Australia. He was appointed to the Board in September 2004.

He is Chairman of the Investment Committee of the Board of Local Super and also 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. 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.

Geoffrey F Towner - Non-Executive Director (Age 57) **MAICD**

Experience & expertise

Appointed a Director of the company in May 2001, Mr Towner's experience in international business and his strong management background is invaluable to the Company.

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

Other current directorships in listed companies

Amadeus Energy Limited.

Former directorships in listed companies in last 3 years

None.

Special responsibilities

None.

Information on Directors

Darryl J Butcher **BSc, F Aus IMM, FAICD**

Mr Butcher was a director at the beginning of the year and resigned as a Director of Australian Renewable Fuels Limited and all of its subsidiaries and related bodies corporate on 18 June 2007.

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Australian Renewable Fuels Limited were:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
A J Mulgrew	-	-
R N Scott	-	-
J E Lillywhite	-	3,000,000
G Denison	345,396	-
M L Ger	-	1,325,000
G Scott	-	-
G F Towner	-	-

AUSTRALIAN RENEWABLE FUELS LIMITED

See note 27 - Key Management Personnel Disclosures

Dividend Policy

During the year ended 30 June 2007, no dividends were paid and the directors are recommending that no dividend be paid.

During the year ended 30 June 2006, no dividends were paid.

Principal Activities

The principal activity of the Group during the period was the operation of the 44.5 million litre per annum biodiesel plant in Largs Bay, South Australia and the 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 and Financial Review

Review of Operations

The 2007 year has been hugely challenging, however our focus has been to ensure that the factors that are under the direct control of the Company have been optimally managed.

Six key areas of management focus were identified:

Reliable operation of both plants to produce high quality biodiesel that meets the Australian Standard. A key performance indicator highlighting our success in this area was the payment of the final two instalments of the Australian Government Biofuels Capital Grant for meeting continuous production and quality milestones. Both plants underwent a program of 'hardening' some of the engineering and process components. It is notable that ARF has not received complaints about the quality or performance of its fuel and has never issued a credit or return note.

Ability to process lowest cost feedstocks. ARF has successfully processed significant quantities of used cooking oils to the extent that it can source this feedstock in the market. ARF has also processed one hundred percent tallow without problems and produced very high quality biodiesel meeting the Australian Standards. Our experience has confirmed that the core technology used in our plants, the Energea reactor, performs very well and does an excellent job of converting the lower cost and lower quality feedstocks to biodiesel.

Managing our costs. This is a continuing focus, made more critical by market pressure on feedstock prices. ARF has met its commitment to reduce its corporate overheads by over \$1 million on an annualised basis, mainly through staff number reductions and our search for other expenditure that can be lowered or eliminated is ongoing.

Achieving large volume sales. Our marketing strategy has two areas of sales concentration. The sale of B100 to major oil companies, fuel wholesalers and retailer/distributors has become essential to all biodiesel producers due to the Australian government's changes to Fuel Tax legislation made in 2006. This change in fuel tax legislation has in practical terms forced ARF to sell to oil companies so that licensed blending can take place with mineral diesel, allowing the end user to continue to claim fuel tax credits where available.

The major oil sector is typically very difficult to negotiate with and without any government policy requiring the participation of fuel companies, to achieve sales to Gull, South Australian Farmers Fuel - both independent fuel companies, and Caltex is notable. Our objective in the current year is to increase volumes to these customers and to break through with at least an additional two oil majors.

A significant obstacle to overcome is the financing of new infrastructure in terminals owned by the oil majors to provide storage and handling facilities for our product to meet the specifications of the oil major. The major oil companies have declined to make this investment. Requests have been made to the Federal Government for their assistance - for example, by providing grant funding - to help overcome the difficult operating and economic climate for biodiesel producers, which was a consequence of Federal Government legislation in 2006. These requests have been refused. The Company is pursuing other methods of financing these infrastructures.

At best, the Federal Government's policy towards biodiesel production in Australia, after their back flip on fuel tax credit eligibility for biodiesel, has been one of indifference.

A second area of concentration is sales made directly to large volume commercial and industrial customers who are able to manage and receive bulk delivery of fuel that has been blended with biodiesel at ARF's plants. Generally sales to this sector are restricted to customers in relatively close proximity to our plants.

AUSTRALIAN RENEWABLE FUELS LIMITED

ARF has received many requests for fuel containing biodiesel, particularly from large mining, earthmoving and transport companies. To service these customers generally requires the assistance of their mineral diesel supplier, generally an oil major. To date little assistance has been received from the oil majors. This makes it essential that ARF achieves "breakthrough" progress in the current year - both with major oil companies and the Federal Government.

American Renewable Fuels Inc. is ARF's 65.52% owned subsidiary in the US. The President and CEO is Mr Ross Garrity. Our group objective was to raise sufficient investor funds in the US to conduct a feasibility study for a 75 million gallon biodiesel plant in Clovis, New Mexico. Approximately USD\$2.1 million has been raised which is sufficient to conduct feasibility and is expected to commence in September 2007. The political and economic environment for biodiesel companies, particularly those such as ARF using lower cost feedstocks, remains positive.

Investor communication. This was an area of ARF's performance that needed significant improvement. Clearly the biodiesel industry commenced in Australia with very high investor expectation, however, instead it is under very heavy stress due largely to the market and government policy reasons previously outlined. Investors have been seeking a greater flow of information and commentary about ARF's plans and results in this very difficult phase. Our response has been to increase the frequency and content of our market releases and use the Open Briefing service to provide relevant and timely investor information. The feedback from investors has been very positive.

An additional pressure on the viability of ARF is the continuing high prices for feedstock. Although ARF can use the lower cost feedstocks such as tallow and used cooking oils, prices have risen significantly over the last few months. This has been driven mainly by rising process needs for fats and oils worldwide, in particular Asian demand for soap manufacture. The rising feedstock prices have been offset to some degree by rising crude oil prices increasing our selling price, however future trends in both input costs and biodiesel selling prices remain volatile with the possibility of further margin deterioration. Mitigation of feedstock price volatility is a priority for the Company going forward.

Operating Results for the Year

The consolidated loss of the economic entity after providing for income tax and eliminating minority interests amounted to \$33,567,250 (2006: \$3,507,781 loss).

Review of Financial Condition

Liquidity and capital resources

The consolidated cash flow statement illustrates that there was a decrease in cash held between 30 June 2006 and 30 June 2007 of \$3.94m. This is after raising a net amount of \$15.85m during the year from share issues. The funds were expended largely in meeting the shortfall in operating activities (\$15.90m), the acquisition of property, plant & equipment (\$4.34m), payments for intangibles (\$5.97m), less the receipt of the Biofuels Capital Grant (\$5.36m).

Shares issued during the year

In April 2007 the Company issued 9 million shares under a Placement at 35 cents each. A further 33,300,000 shares were issued at 35 cents each pursuant to a Rights issue also in April 2007. Finally, a shareholder debt of \$2m, owing to Mr D. Butcher, was capitalised with shareholder approval at 35 cents/share on 20 April 2007.

48,014,285 share options exercisable at 60 cents each were issued pursuant to the three capital raisings.

Capital expenditure

Capital expenditure has decreased from \$35m for the year ended 30 June 2006 to \$4.34m for the year ended 30 June 2007. The expenditure relates to the completion of the biodiesel plants in Largs Bay and Picton together with minor plant additions in May and June 2007.

Significant Changes in the State of Affairs

- (i) An impairment charge of \$29.45 million against the Group's assets was recorded in the Consolidated Income Statement for the year ended 30 June 2007.
- (ii) The Parent Entity recorded an asset impairment charge of \$29.67 million and
- (iii) Australian Renewable Adelaide Pty Ltd, a wholly owned subsidiary, recorded an asset impairment charge of \$4.37 million during the year ended 30 June 2007.
- (iv) In August 2006, the parent acquired 65.52% of American Renewable Fuels Inc. ("ARF Inc."). Refer to Note 32 for further details of the acquisition.

AUSTRALIAN RENEWABLE FUELS LIMITED

Significant Events after the Balance Date

At the date of the directors' report there is no other matter or circumstance which has arisen since 30 June 2007 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 2007.

Likely Developments

The likely developments for the Group during the coming year are fully covered in the Review of Operations in this report.

Environmental Regulation and Performance

The Group holds licenses issued by the relevant environmental protection authorities of the various Australian States in which it operates. These licenses specify limits and regulate the management of discharges to the air and storm water run-off associated with the operations of the biodiesel plants.

There have been no significant known breaches of the Group's license conditions.

Share Options

Unissued Shares

As at the date of this report, there were 53,675,286 unissued ordinary shares under option as follows:

No. of Options over Ordinary Shares	Issue price of shares	Date exercisable from	Expiry Date
75,000	\$0.50	18/10/2005	18/10/2009
75,000	\$1.00	10/10/2006	18/10/2009
75,000	\$1.50	18/10/2007	18/10/2009
310,000	\$1.13	30/06/2006	30/06/2010
100,000	\$1.58	17/03/2007	17/03/2011
65,000	\$1.62	24/03/2007	24/03/2011
310,000	\$1.50	30/06/2004	30/06/2010
400,000	\$0.60	18/10/2007	18/05/2012
70,000	\$1.00	06/11/2007	06/11/2011
100,000	\$1.58	17/03/2008	17/03/2011
65,000	\$1.62	24/03/2008	24/03/2011
500,000	\$0.60	02/01/2008	02/01/2012
310,000	\$2.00	30/06/2008	30/06/2010
400,000	\$1.00	18/10/2008	18/05/2012
70,000	\$1.50	06/11/2008	06/11/2011
100,000	\$2.00	17/03/2009	17/03/2011
500,000	\$1.00	02/01/2009	02/01/2012
70,000	\$2.00	24/03/2009	24/03/2011
70,000	\$2.00	06/11/2009	06/11/2011
2,000,000	\$2.00	02/01/2010	02/01/2012
48,010,286	\$0.60	23/04/2007	23/04/2009
53,675,286			

Refer to Notes 24 & 37 of the financial statements for further details of the options issued during the year.

Option holders under the Company's Employee Share Option Plan may participate in a new issue of securities to existing shareholders in the Company if:

- (i) they have become entitled to exercise their options under the Employee Share Option Plan (ESOP), and,
- (ii) they do so before the record date for the determination of entitlements to the new issue of securities and participate as a result of being holders of shares.

At Balance date, the holders of 5,665,000 options qualified for participation under the ESOP. Refer to note 37 of the Financial Statements for further details.

Shares issued as a result of the exercise of options

No employee share options were exercised during the financial year ended 30 June 2007.

AUSTRALIAN RENEWABLE FUELS LIMITED

Proceedings on behalf of the company

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.

Indemnification and Insurance of Directors and Officers

During, or since the end of the financial year ended 30 June 2007 the Company has paid premiums in respect of a contract insuring all the directors and officers of Australian Renewable Fuels Limited incurring loss in respect to legal liability by reason of any wrongful act, breach of trust, neglect, error or omission. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position.

The total amount of the insurance contract premium was \$68,357.

Remuneration Report (audited)

This report outlines the remuneration arrangements in place for directors and key management personnel of Australian Renewable Fuels Limited (the Company). These disclosures that are required under Accounting Standards AASB 124 Related Party Disclosures, have been transferred from the Financial report and have been audited.

Remuneration Philosophy

The performance of the Company depends upon the quality of its directors and key management personnel. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework;

- provide competitive rewards to attract high calibre executives;
- 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; and
- Executive directors fixed remuneration consists of salaries and consulting fees and is determined by reference to appropriate benchmark information.

Remuneration Committee

Remuneration Committee responsibilities are presently carried out by directors Mr A Mulgrew and Mr G F Towner, who are responsible for determining and reviewing compensation arrangements for the directors and the Chief Executive Officer (CEO) of the Company.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of any executive director and the CEO on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of quality executive directors and the CEO.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. Total non-executive director fees are not to exceed \$300,000 per annum, as previously approved by the Company.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. Each non-executive director receives a fee for being a director of the Company. Executive directors do not receive directors' fees.

AUSTRALIAN RENEWABLE FUELS LIMITED

Non-executive directors are encouraged by the Board to hold shares in the Company (purchased by the director on market). It is considered good governance for directors to have a stake in the Company on whose board they sit.

The remuneration of non-executive directors for the year ended 30 June 2007 is detailed in Table 1 of this report.

Senior manager and executive director remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward executives for Company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link rewards with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

Structure

It is company policy that employment contracts are entered into only with certain executives of the Company. Details of key contracts are provided on page 13.

Remuneration consists of the following key elements:

- fixed remuneration; and
- variable remuneration
- long term incentive (LTI).

The proportion of fixed remuneration and variable remuneration (long term incentives) is established for each senior manager by the CEO. The fixed and variable remuneration of the CEO is determined by the Board of Directors on recommendation from the Remuneration Committee.

Fixed Remuneration

Objective

Fixed remuneration is reviewed annually. The process consists of a review of companywide, business unit and individual performance, relevant comparative remuneration in the market and internally, and, where appropriate, external advice on policies and practices.

Structure

Executive employees receive their fixed remuneration in the form of cash with the option of superannuation salary sacrifice.

Table 2 details the fixed component of key executive employees' remuneration.

Variable Pay - Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward executives in a manner that aligns this element of compensation with the creator of shareholder wealth. As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure

LTI grants to key management personnel are delivered in the form of options.

AUSTRALIAN RENEWABLE FUELS LIMITED

Remuneration of Directors and Named Executives (audited)

Table 1: Directors' remuneration for the year ended 30 June 2007

		Primary Benefits. Salary, consulting fees & directors fees	Post- employment Benefits Superannuation Contributions	Share-based Payments LTI Options	Total	Proportion of Remuneration linked to performance
		\$	\$	\$	\$	\$
A J Mulgrew Chairman	2007 2006	80,000 -	- -	- -	80,000 -	- -
R N Scott Deputy Chairman	2007 2006	60,000 58,333	- 5,250	- -	60,000 63,583	- -
D J Butcher (resigned June 2007) Chief Executive	2007 2006	293,333 320,000	- -	- -	293,333 320,000	- -
M L Ger Finance Director	2007 2006	185,875 174,500	- -	88,505 136,692	274,380 311,192	32% 44%
G Denison Non-executive	2007 2006	50,000 35,000	- 3,150	- -	50,000 38,150	- -
G M Scott Non-executive	2007 2006	50,000 35,000	- 3,150	- -	50,000 38,150	- -
G F Towner Non-executive	2007 2006	50,000 35,000	- 3,150	- -	50,000 38,150	- -

- Mr J E Lillywhite was appointed Managing Director on 21 September 2007.

Table 2: Remuneration of key management personnel for the year ended 30 June 2007

		Primary Benefits Salary, consulting fees & directors fees	Post-employment Benefits Superannuation Contributions	Share-based Payments. LTI Options	Total	Proportion of Remuneration linked to performance
		\$	\$	\$	\$	\$
J Lillywhite (part year) Chief Executive Officer	2007	134,256	13,426	130,683	278,365	47%
F Santich (part year) Project Manager	2007 2006	8,000 168,000	- -	18,945 109,444	26,945 277,444	70% 39%
P White SA State Manager	2007 2006	162,308 157,538	16,231 15,754	38,218 109,444	216,757 282,736	18% 39%
T King Marketing Manager	2007 2006	129,631 124,304	11,667 11,187	38,218 109,444	179,516 244,935	21% 45%
P Stenzel Commodity Supply Manager	2007 2006	184,615 -	17,723 -	84,129 -	286,467 -	29% -
A Carpenter Technical Development Manager (part year)	2007 2006	129,631 55,323	12,963 5,532	57,915 -	200,509 -	29% -

AUSTRALIAN RENEWABLE FUELS LIMITED

Table 3: Options granted as part of remuneration to key management personnel for the year ended 30 June 2007

	Grant Date	Grant Number	Value per option at grant date \$	Total value of options granted during year \$	Remuneration consisting of options for the year %	First exercise date	Last exercise date
J Lillywhite	19/01/07	500,000	0.2522	126,100	48.43	02/01/08	02/01/12
	19/01/07	500,000	0.1881	94,050	41.19	02/01/09	02/01/12
	19/01/07	2,000,000	0.1686	337,200	71.52	02/01/10	02/01/12
M Ger	18/05/07	400,000	0.2343	93,720	33.51	18/10/07	18/05/12
	18/05/07	400,000	0.1992	79,680	30.00	18/10/08	18/05/12

Options granted 1 July 2007

	Grant Date	Grant Number	Value per option at grant date \$	Total value of options granted during year \$	Remuneration consisting of options for the year %	First exercise date	Last exercise date
P White	01/07/07	150,000	0.3541	53,115	25.00	01/07/08	30/06/12
T King	01/07/07	100,000	0.3541	35,410	22.52	01/07/08	30/06/12
P Stenzel	01/07/07	100,000	0.3541	35,410	16.09	01/07/08	30/06/12
A Carpenter	01/07/07	100,000	0.3541	35,410	25.33	01/07/08	30/06/12

Compensation options: Granted and vested during the year (audited)

During the financial year options were granted as equity compensation benefits under the long-term incentive plan to certain key management personnel as disclosed above. No share options have been granted to the non-executive members of the Board of Directors of this scheme. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity. There are no cash settlement alternatives.

Name	Number of options granted during the year		Number of options vested during the year	
	2007	2006	2007	2006
Directors of Australian Renewable Fuels Limited				
M Ger	800,000	300,000	175,000	175,000
J Lillywhite	3,000,000	-	-	-
Other key management personnel of the Group				
F Santich	-	300,000	-	100,000
P White (granted 1 July 2007)	150,000	300,000	100,000	100,000
T King (granted 1 July 2007)	100,000	300,000	100,000	100,000
A Carpenter (granted 1 July 2007)	100,000	200,000	65,000	-
P Stenzel (granted 1 July 2007)	100,000	300,000	100,000	-

Employment Agreement (audited)

Mr J Lillywhite, Managing Director of the Group, is employed on a full-time basis on an annual salary of \$280,000 per annum plus an annual bonus based on performance, of up to 20% of salary. He is entitled to superannuation at 10% of base salary. An Employee Options Package detailed in Table 3 above, forms part of his remuneration.

Consultancy Agreements (audited)

A Consultancy Agreement was in place during the year between the Company and NeoProTec Pty Ltd, a company in which Mr D Butcher has an interest, whereby NeoProTec provided consulting services to the Company. The contract commenced on 1 July 2004 and terminated on 18 June 2007.

A Consultancy Agreement is in place between the Company and Picola Holdings Pty Ltd, a company in which Mr M Ger has an interest, whereby Picola provides consulting services to the Company. The contract commenced on 18 October 2004 and terminates on 18 October 2007, at which time the Group may choose to commence negotiation to enter into a new service contract with Picola.

- Picola receives a fixed remuneration of \$220,000 per annum.
- The Company may terminate the agreement effective immediately under certain just circumstances. Where termination with cause occurs, Picola is entitled to the portion of the consultancy fee up to the date of termination of the agreement.

AUSTRALIAN RENEWABLE FUELS LIMITED

- The Consultant may terminate the agreement in the event of any breach of the agreement by the Company remaining unremedied for a period of 30 Business days from written notification by the Consultant.

Directors' Meetings

The number of meetings of directors held during the year and the number of meetings attended by each director were as follows:

Directors	Full Meeting of Directors		Meetings of Audit Committee	
	A	B	A	B
A J Mulgrew	20	21	-	-
R N Scott	20	21	2	2
D J Butcher	17	21	-	-
G Denison	18	21	2	2
M L Ger	21	21	-	-
G M Scott	15	21	2	2
G F Towner	20	21	-	-

- Mr J Lillywhite was appointed Managing Director on 21 September 2007.

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

Audit Committee Membership

As at the date of this report, the Company has an Audit Committee comprising of Mr R Scott, Mr G Scott and Mr G Denison. Previously, the Audit Committee comprised of the entire Board with the exception of the Finance Director, Mr M Ger.

Retirement, election and continuation in office of directors

Messrs G Towner and M Ger are directors retiring by rotation and, being eligible, offer themselves for re-election.

Non-audit Services

The following non-audit services were provided by the entity's auditor, BDO Kendalls Audit & Assurance (WA) Pty Ltd. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Non-audit services

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

Details of the amounts paid or payable to the auditor (BDO Kendalls Audit & Assurance (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 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 set out 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 principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

AUSTRALIAN RENEWABLE FUELS LIMITED

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	
	2007	2006
	\$	\$
1. Audit services		
BDO Kendalls Audit & Assurance (WA) Pty Ltd		
Audit and review of financial reports	66,246	15,876
Fees relating to prior year	33,204	-
Total remuneration for audit services	99,450	15,876
2. Taxation services		
BDO Kendalls Corporate Tax (WA) Pty Ltd		
Taxation services	4,875	24,950
Total remuneration for taxation services	4,875	24,950
2. Other services		
BDO Corporate Finance (WA) Pty Ltd		
Bench marking services	27,750	72,222
Corporation financial services	-	-
Related practices of BDO Kendalls Audit & Assurance (WA) Pty Ltd	-	-
Non-BDO Kendalls audit firm	-	-
Total remuneration for other services	32,625	97,172

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 59.

Auditor

BDO Kendalls Audit & Assurance (WA) Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the directors.



A Mulgrew
Chairman

28 September 2007

AUSTRALIAN RENEWABLE FUELS LIMITED

CORPORATE GOVERNANCE REPORT

Statement

Australian Renewable Fuels Limited ("**Company**") continues to work towards implementing 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 Australian Stock Exchange ("**ASX**") ASX Principles of Good Corporate Governance and Best Practice Recommendations, 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 and 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.

Explanation For Departure From Best Practice Recommendations

During the Company's 2006/2007 financial year ("**Reporting Period**") the Company has complied 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**")¹, other than in relation to the matter specified below.

In accordance with the recommendations of the ASX Principles and Recommendations, the Company has made disclosures on its website in relation to improvements to its governance practices, including charters (for the Board and its sub-committees), codes of conduct and other policies and procedures relating to the Board and its responsibilities.

Principle 2 Recommendation 2.1

Notification of Departure: Currently only two members of the seven member Board are considered to be independent.

Explanation for Departure: The ARF Board seeks to establish a Board that consists of Directors with a wide range of experience, skill, knowledge and vision to enable it to operate the Company's business with a view to maximising shareholder value. The Company considers Directors to be independent when they have no role in the day to day management of the company and are free from any business or other relationship which could materially interfere with the exercise of their unfettered and independent judgement. Directors A Mulgrew and G Denison are considered to meet this independence criteria and are both considered to be independent.

Due to the size and nature of the company's activities, it does not consider it appropriate to maintain a Board structure where there is a majority of independent Directors. The Board considers that at ARF's current stage of development, other competing priorities, which may impact on the Board structure, would be of greater importance to shareholders in terms of creating shareholder wealth, than the independence of a majority of Directors. The roles of Chairman and Managing Director are exercised by different members of the Board which facilitates greater independence.

Board Committees

Audit Committee

The Company has established an Audit Committee, which meets generally twice during the financial year. The Committee's role is to assist the Board in fulfilling its responsibilities for the Company's financial reporting, audit process, internal control system and management of financial risks.

Mr R Scott is the Chairman of the Audit Committee. He is a Chartered Accountant with extensive experience which makes him eminently suitable to chair this Committee. Messrs G Scott and G Denison are also members of the Audit Committee and are well qualified through their financial and technical expertise and experience.

The Audit Committee liaises directly with the external Auditors of the Company to exercise independent judgement and is sufficiently qualified to review the integrity of the Company's financial reporting.

During the reporting period, the Audit Committee convened twice.

¹ A copy of the ASX Principles and Recommendations is set out on the Company's website under the Section entitled "Corporate Governance".

AUSTRALIAN RENEWABLE FUELS LIMITED

Nomination Committee

During the financial year, the Company established a separate Nomination Committee. The Nomination Committee is comprised of all members of the Board. When a vacancy occurs, through whatever cause, or where it is considered that the Company would benefit from the skills of an additional Director with particular skills, the Board considers candidates with the appropriate expertise and experience. An appointment to the Board is then made on the recommendation of the Nomination Committee.

During the reporting period, the Nomination Committee convened once.

Remuneration Committee

Company's Remuneration Philosophy and Policies

The Company's remuneration philosophy and policies for both executive and non-executive directors are fully set out in the Remuneration Report.

The remuneration committee is comprised of Messrs A Mulgrew and G Towner who are both eminently qualified to assess appropriate remuneration rewards for key management personnel.

During the reporting period, the Remuneration Committee convened twice.

Other

Skills, Experience and Expertise of each Director

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

Interest of Stakeholders

The Board has adopted a Corporate Code of Conduct which requires a high level of ethical behaviour for all Directors and employees of the Company. The Board encourages employees to report breaches of the Code without fear of retribution.

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 Chairperson, 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

The Chairman conducts ongoing evaluation of Board members' individual performance and contributions. This evaluation is done in the context of the Company's changing requirements. The Board convened on 21 occasions during the reporting period.

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

There are no termination or retirement schemes for non-executive directors.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Income Statements

for the year ended 30 June 2007

	Notes	CONSOLIDATED ENTITY		PARENT ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$
Revenue from continuing operations	5	12,838,286	187,061	-	-
Other income	6	960,065	1,325,888	597,147	1,305,377
Total Revenue		13,798,351	1,512,949	597,147	1,305,377
Cost of goods sold - Depreciation	7	(2,092,199)	(330,133)	-	-
Cost of goods sold - Other	7	(18,810,874)	(625,892)	-	-
Gross Profit/(Loss)		(7,104,722)	556,924	597,147	1,305,377
Administrative expenses		(2,407,322)	(3,114,842)	(1,518,434)	(1,830,220)
Employee expenses	7	(3,086,885)	(2,706,391)	(2,371,064)	(1,119,911)
Finance costs	7	(351,545)	(102,683)	(275,996)	(97,945)
Consultancy		(839,623)	(559,046)	(622,400)	(548,730)
Impairment of assets	7	(29,446,767)	-	(29,678,559)	-
Depreciation and amortisation	7	(935,456)	(116,165)	(422,119)	(77,825)
Loss before income tax		(44,172,320)	(6,042,203)	(34,291,425)	(2,369,254)
Income tax benefit	8	10,605,070	2,534,422	3,919,359	1,453,736
Loss after tax from continuing operations		(33,567,250)	(3,507,781)	(30,372,066)	(915,518)
Loss attributable to minority interest		-	-	-	-
Loss attributable to members of parent		(33,567,250)	(3,507,781)	(30,372,066)	(915,518)
Earnings per share for profit attributable to the ordinary equity holders of the Company					
Basic earnings per share (cents per share)	36	(24.867)	(3.157)		
Diluted earnings per share (cents per share)	36	(24.867)	(3.157)		

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

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Consolidated Balance Sheets

As at 30 June 2007

	Notes	CONSOLIDATED ENTITY		PARENT ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	9	6,081,472	10,023,115	6,406,615	10,226,559
Trade and other receivables	10	2,253,898	1,168,578	945,207	177,850
Inventories	11	4,230,551	1,933,296	-	-
Total current assets		12,565,921	13,124,989	7,351,822	10,404,409
Non-current assets					
Receivables	13	-	-	44,508,908	45,947,100
Other financial assets	14	-	-	11,242,745	15,600,005
Property, plant and equipment	15	35,799,800	45,009,507	927,806	994,541
Deferred tax asset	16	7,750,000	3,830,641	7,690,753	3,771,394
Intangible assets	17	18,181,952	31,998,681	459,880	9,692,483
Total non-current assets		61,731,752	80,838,829	64,830,092	76,005,523
Total assets		74,297,673	93,963,818	72,181,914	86,409,932
Current liabilities					
Trade and other payables	18	3,765,889	4,518,122	1,732,801	2,925,924
Borrowings	19	1,230,128	23,681	1,200,000	-
Total current liabilities		4,996,017	4,541,803	2,932,801	2,925,924
Non-current liabilities					
Borrowings	21	84,148	75,289	-	-
Deferred tax liabilities	22	1,988	6,687,699	1,735	1,735
Non-interest bearing liabilities	23	400,000	650,000	400,000	650,000
Government grants	20	-	1,786,680	-	-
Total non-current liabilities		486,136	9,199,668	401,735	651,735
Total liabilities		5,482,153	13,741,471	3,334,536	3,577,659
Net assets		68,815,520	80,222,347	68,847,378	82,832,273
Equity					
Contributed equity	24	99,664,398	83,778,829	99,664,398	83,777,682
Accumulated (losses)	25	(37,718,702)	(4,151,452)	(31,912,445)	(1,540,379)
Reserves	25	952,909	594,970	1,095,425	594,970
		62,898,605	80,222,347	68,847,378	82,832,273
Minority Interest	32	5,916,915	-	-	-
Total equity		68,815,520	80,222,347	68,847,378	82,832,273

The accompanying notes form an integral part of these balance sheets.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Statement of Changes in Equity

for the year ended 30 June 2007

CONSOLIDATED ENTITY

	Share Capital	Employee Share Option Reserve	Currency Translatio n Reserve	Retained Earnings	Minority Interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2005	57,259,460	19,111	-	(643,671)	-	56,634,900
Net loss for the year	-	-	-	(3,507,781)	-	(3,507,781)
Total recognised income and expense for the year	-	-	-	(3,507,781)	-	(3,507,781)
Contributions of equity, net of transaction costs	25,225,132	-	-	-	-	25,225,132
Employee share options expense	-	575,859	-	-	-	575,859
Deferred tax credit recognised directly in equity	1,294,237	-	-	-	-	1,294,237
Balance at 1 July 2006	83,778,829	594,970	-	(4,151,452)	-	80,222,347
Net income/expense recognised directly in equity - Foreign Currency translation	-	-	(142,516)	-	-	(142,516)
Net loss for the year	-	-	-	(33,567,250)	-	(33,567,250)
Total recognised income and expense for the year	-	-	(142,516)	(33,567,250)	-	(33,709,766)
Contributions of equity, net of transaction costs	15,850,278	-	-	-	-	15,850,278
Employee share option expense	-	535,746	-	-	-	535,746
Transfer - expired share options expense	35,291	(35,291)	-	-	-	-
Acquisition of minority interest	-	-	-	-	5,916,915	5,916,915
Balance at 30 June 2007	99,664,398	1,095,425	(142,516)	(37,718,702)	5,916,915	68,815,520

PARENT ENTITY

	Share Capital	Reserves	Retained Earnings	Total
	\$	\$	\$	\$
Balance at 1 July 2005	57,259,460	19,111	(624,861)	56,653,710
Net loss for the year	-	-	(915,518)	(915,518)
Total recognised income and expense for the year	-	-	(915,518)	(915,518)
Contributions of equity, net of transaction costs	25,225,132	-	-	25,225,132
Employee share option expense	-	575,859	-	575,859
Deferred tax credit recognised directly in equity	1,294,237	-	-	1,294,237
Balance at 1 July 2006	83,778,829	594,970	(1,540,379)	82,833,420
Net loss for the year	-	-	(30,372,066)	(30,372,066)
Total recognised income and expense for the year	-	-	(30,372,066)	(30,372,066)
Contributions of equity, net of transaction costs	15,850,278	-	-	15,850,278
Employee share option expense	-	535,746	-	535,746
Transfer - expired share options expense	35,291	(35,291)	-	-
Balance at 30 June 2007	99,664,398	1,095,425	(31,912,445)	68,847,378

The accompanying notes form an integral part of these statements in changes in equity.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Cash Flow Statements

for the year ended 30 June 2007

	Notes	CONSOLIDATED ENTITY		PARENT ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts in the course of operations		11,752,966	295,841	-	172,152
Payments in the course of operations		(27,657,298)	(7,364,573)	(5,949,644)	(2,527,113)
Interest received		192,016	867,086	186,434	867,086
Grant income		67,420	319,295	67,420	318,624
Foreign exchange gains		93,293	-	93,293	-
Borrowing costs		(351,545)	(102,683)	(275,996)	(102,683)
Net cash outflow from operating activities	35	(15,903,148)	(5,985,034)	(5,878,493)	(1,271,934)
Cash flows from investing activities					
Payments for property, plant & equipment		(4,343,719)	(34,983,296)	(9,276)	(249,731)
Receipt of Biofuels Capital Infrastructure Grant		5,360,040	-	-	-
Payments for intangibles		(5,976,737)	(6,470,218)	(55,298)	(6,449,731)
Investment in related parties		-	-	(5,379,506)	-
Loans to related parties		-	-	(9,561,808)	(37,298,357)
Net cash outflow from investing activities		(4,960,416)	(41,453,514)	(15,005,888)	(43,997,819)
Cash flows from financing activities					
Net proceeds from issue of shares		15,850,278	25,225,132	15,850,278	25,225,132
Proceeds from borrowings		5,119,214	3,000,000	5,119,214	3,000,000
Repayment of borrowings		(3,905,055)	(3,000,000)	(3,905,055)	(3,000,000)
Repayment of non-interest bearing loan		-	(580,000)	-	(580,000)
Non-interest bearing loan		-	650,000	-	650,000
Net cash inflow from financing activities		17,064,437	25,295,132	17,064,437	25,295,132
Net decrease in cash and cash equivalents held					
		(3,799,127)	(22,143,416)	(3,819,944)	(19,974,621)
Cash and cash equivalents at the beginning of the financial period		10,023,115	32,166,531	10,226,559	30,201,180
Effects of exchange rate fluctuation on cash held in foreign currency		(142,516)	-	-	-
Cash and cash equivalents at the end of the financial period	9	6,081,472	10,023,115	6,406,615	10,226,559

The accompanying notes form an integral part of the above cash flow statements.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

Contents of the Notes to the Financial Statements

Note

- 1 Summary of significant accounting policies
- 2 Financial risk management
- 3 Critical accounting estimates
- 4 Segment information
- 5 Revenue
- 6 Other income
- 7 Expenses
- 8 Income tax benefit
- 9 Current assets - Cash and cash equivalents
- 10 Current assets - Trade and other receivables
- 11 Current assets - Inventories
- 12 Financial instruments
- 13 Non-current assets - Receivables
- 14 Non-current assets - Other financial assets
- 15 Non-current assets - Property, plant and equipment
- 16 Non-current assets - Deferred tax assets
- 17 Non-current assets - Intangible assets
- 18 Current liabilities - Trade and other payables
- 19 Current liabilities - Borrowings
- 20 Current liabilities - Government grants
- 21 Non-current liabilities - Borrowings
- 22 Non-current liabilities - Deferred tax liabilities
- 23 Non-current liabilities - Non interest bearing liabilities
- 24 Contributed equity
- 25 Reserves and accumulated losses
- 26 Dividends
- 27 Key management personnel disclosures
- 28 Remuneration of auditors
- 29 Contingencies
- 30 Commitments
- 31 Related party transactions
- 32 Subsidiaries
- 33 Deed of cross guarantee
- 34 Events occurring after the balance sheet date
- 35 Reconciliation of net (loss) after tax to net cash flows from operations
- 36 Earnings per share
- 37 Share-based payments

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Australian Renewable Fuels Limited as an individual entity and the consolidated entity consisting of Australian Renewable Fuels Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Australian Renewable Fuels Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132

Financial Instruments: Disclosure and Presentation.

Early adoption of standards

The following new accounting standards, amendments to standards and interpretations have been issued and are not mandatory as at 30 June 2007. They are available for early adoption and have been applied in preparing this financial report. The company has made a formal written election to change accounting policies early from adoption of these new standards, interpretations and consequential amendments in accordance with s334 (5) of the Corporations Act.:

- revised AASB 101 Presentation of Financial Statements (issued October 2006)

The company has elected to early adopt the revised version of AASB 101: Presentation of Financial Statements for the annual financial period commencing 1 July 2006. The revised standard is mandatory for annual reporting periods commencing on or after 1 January 2007. The amendments result from an Australian Accounting Standards Board (AASB) decision that, in principle, all options that currently exist under International Financial Reporting Standards (IFRS) should be included in Australian Equivalents to International Financial Reporting Standards (AIFRS), and additional Australian disclosures initially required should be eliminated, other than those now considered particularly relevant in the Australian reporting environment or those which would be in conflict with the Corporations Act. Early adoption of the revised standard has had no effect on any of the amounts recognised in the financial report but certain disclosures which are no longer required have been omitted.

This includes applying the pronouncements to the comparatives in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Renewable Fuels Limited ("company" or "parent entity") as at 30 June 2007 and the results of all subsidiaries for the year then ended. Australian Renewable Fuels Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

Subsidiaries (continued)

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 32).

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Australian Renewable Fuels Limited.

(c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Australian Renewable Fuels Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

1 Summary of significant accounting policies (continued)

(iii) Group companies (continued)

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods - wholesale

The Group manufactures and sells biodiesel to the wholesale market. Sales of goods are recognised when a group entity has delivered products to the wholesaler. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(ii) Interest income

Interest income is recognised when the Group's right to receive the payment is first established.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on achievement of certain milestones. The proceeds of the Federal Government Grant received was transferred against the carrying cost of the Adelaide plant when that asset's carrying value was identified as being impaired.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Australian Renewable Fuels Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Australian Renewable Fuels Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Australian Renewable Fuels Limited also recognizes the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 30). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 30). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

(h) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

1 Summary of significant accounting policies (continued)

(i) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown as a reduction of credit balances where the right of set-off exists.

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement in other expenses.

(k) Inventories

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation and less any recorded impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are credited, net of tax, to other reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the income statement. Each year, the difference between depreciation based on the re-valued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost, net of tax, is transferred from the property, plant and equipment revaluation reserve to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Buildings 25-40 years
- Machinery 20 years
- Vehicles 5 years

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

1 Summary of significant accounting policies (continued)

(l) Property, plant and equipment (continued)

- Furniture, fittings and equipment 3-8 years
- Leasehold improvements 10 years
- Leased plant and equipment 10-15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When re-valued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(i) Patents

Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives, which vary from 3 to 5 years.

(ii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 5 years.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(o) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

1 Summary of significant accounting policies (continued)

(o) Employee benefits (continued)

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the Australian Renewable Fuels Employee Share Option Plan. Information relating to these schemes is set out in note 37.

The fair value of options granted under the Australian Renewable Fuels Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(p) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(q) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(r) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

1 Summary of significant accounting policies (continued)

(s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(t) New accounting standards and interpretations

Accounting standards issued not yet effective

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial years ended 30 June 2007. They have not been adopted in preparing the financial report for the year ended 30 June 2007 and are expected to impact the entity in the period of initial application. In all cases the entity intends to apply these standards from application date as indicated in the table below.

AASB reference	Title and Affected Standard(s):	Application date:	Impact on Initial Application
AASB Interpretation 10 (issued Sept 2006)	Interim Financial Reporting and Impairment	Periods commencing on or after 1 November 2006	There will be no impact because the entity has not previously made any impairment write-downs on these items during an interim reporting period (or has not subsequently reversed such impairment write-downs).
AASB Interpretation 11 (issued Feb 2007)	AASB 2 - Group and Treasury Share Transactions	Periods commencing on or after 1 March 2007	There will be no impact because at the reporting date neither the entity nor its parent entity has granted any rights to equity instruments for employee services.
AASB 2007-4 (issued Apr 2007)	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038]	Periods commencing on or after 1 July 2007	Most changes relate to certain Australian-specific disclosures not being required. The entity does not intend to adopt any reinstated options for accounting treatment when the standard is adopted. As such, there here will be no future financial impacts on the financial statements.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

1 Summary of significant accounting policies (continued)

(t) New accounting standards and interpretations (continued)

Accounting standards issued not yet effective (continued)

AASB reference	Title and Affected Standard(s):	Application date:	Impact on Initial Application
AASB Interpretation 13	Customer Loyalty Programmes	Periods commencing on or after 1 July 2008	There will be no impact as the entity does not have a customer loyalty programme
AASB 123 (revised Jun 2007)	Borrowing Costs	Periods commencing on or after 1 January 2009	The transitional provisions of this standard only require capitalisation of borrowing costs on qualifying assets where commencement date for capitalisation is on or after 1 January 2009. As such, there will be no impact on prior period financial statements when this standard is adopted.
AASB 7 (issued Aug 2005)	Financial Instruments: Disclosures	Annual periods commencing on or after 1 January 2007	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, various additional disclosures will be required about the group's and the parent entity's financial instruments.
AASB 8 (Issued Feb 2007)	Operating Segments	Periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, disclosures required for the operating segments will be significantly different to what is currently reported (business and geographical segment).

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

2 Financial risk management

The Group's principal financial instruments comprise bank loans, overdrafts and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and payables, which arise directly from its operations.

The Group's activities expose it to a variety of financial risk, market risk (including currency risk, fair value interest rate risk and price risk), liquidity risk and cash flow interest rate risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and commodity price risks.

Risk management is carried out by the Board of Directors, who review, evaluate and agree policies for managing each of the following risks summarised below.

(a) Foreign Currency Risk

The Group's core operations are currently located in Australia so currency risk is relatively low. The Group will seek to mitigate the effect of its foreign currency exposure for development of its NAFTA interests by funding its requirements in United States dollars.

(b) Commodity Price Risk

The Group is exposed to commodity price risk in respect of its feedstock requirements. It seeks to mitigate this risk by entering into forward contracts for the supply of its feedstock.

The Group seeks to mitigate its offtake prices by negotiating margin protection measures with customers wherever possible.

(c) Interest Rate Risk

The Company has a short term interest rate loan to partially fund its inventories.

(d) Credit Risk

The customers are all large highly recognisable local companies with trading terms of payment within 30 days of delivery of the product.

3 Critical accounting estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of assets.

The Group tests annually its assets for impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 15 for the impairment recognised.

(ii) Deferred tax assets.

The Group records deferred tax assets to the extent that it expects to offset these amounts against future taxable income.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

4 Segment Information

Primary reporting format - Geographical

The Group's primary segment reporting format is geographical. The geographical segments are determined based on the location of the Group's assets. The four segments are the biodiesel plants at Largs Bay, South Australia and Picton Western Australia, Corporate head office in Perth, Western Australia and the assets in the NAFTA Zone, principally the USA.

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2007 and 30 June 2006.

	USA \$	South Australia (Largs Bay) \$	Western Australia (Picton) \$	Western Australia (Corporate) \$	Total \$
Year ended 30 June 2007					
Revenue					
Sales to external customers	-	10,684,038	2,154,248	-	12,838,286
Other revenues	-	360,694	2,224	597,147	960,065
Total segment revenue	-	11,044,732	2,156,472	597,147	13,798,351
Segment result	-	(16,346,216)	(5,176,867)	(22,649,237)	44,172,320
Income tax benefit					10,605,070
Loss for the year					33,567,250
Segment assets	17,864,310	17,545,079	22,461,934	16,426,350	74,297,673
Segment liabilities	252,601	1,940,411	405,508	2,883,633	5,482,153
Capital expenditure	11,931,554	2,616,226	1,680,314	9276	16,237,370
Depreciation and amortisation expense	-	1,309,658	1,005,389	712,608	3,027,655
		South Australia (Largs Bay) \$	Western Australia (Picton) \$	Western Australia (Corporate) \$	Total \$
Year ended 30 June 2006					
Revenue					
Sales to external customers		187,061	-	-	187,061
Other revenues		19,939	572	1,305,376	1,325,887
Total segment revenue		207,000	572	1,305,376	1,512,948
Segment result		(2,477,811)	(1,190,360)	(2,374,032)	(6,042,203)
Income tax benefit					2,534,422
Loss for the year					(3,507,781)
Segment assets		26,017,703	20,777,449	47,168,666	93,963,818
Segment liabilities		2,842,156	850,151	10,049,164	13,741,471
Capital expenditure		14,716,553	20,017,019	249,729	34,983,301
Depreciation and amortisation expense		355,962	13,258	77,078	446,298

Secondary reporting format - Business

The Group has one primary business segment, that being the production of biodiesel. Therefore, the Group has not disclosed information relating to business segments.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

5 Revenue

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenue from continuing operations				
Revenue				
Sale of goods	12,838,286	187,061	-	-

6 Other Income

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
(b) Other income				
Grants*	674,756	464,135	317,420	465,835
Interest income	192,016	861,753	186,434	839,542
Foreign exchange gains	93,293	-	93,293	-
	<u>960,065</u>	<u>1,325,888</u>	<u>597,147</u>	<u>1,305,377</u>

*Grants

Dairy Regional Assistance Programme (a)	48,280	464,135	48,280	465,835
Federal Government Biofuels Capital Infrastructure Grant(b)	357,336	-	-	-
WA State Government(c)	250,000	-	250,000	-
Renewable Energy Development Initiative (REDI Grant)(d)	19,140	-	19,140	-
	<u>674,756</u>	<u>464,135</u>	<u>317,920</u>	<u>465,835</u>

(a) Dairy Regional Assistance Programme. The purpose of the funding programme is to support the creation of sustainable employment opportunities in dairy dependent communities and to provide services that lead to ongoing regional benefit to those communities. The retention of the grant is dependent upon the direct and indirect employment of personnel on the Picton project and the successful production of biodiesel at design throughput to standard.

(b) Federal Government Biofuels Capital Infrastructure Grant. Refer Note 29.

(c) WA State Government loan for the acquisition of land at Picton, WA. This loan converts to a grant over 5 years subject to continuing biodiesel operations at the Group's Picton site and the provision of employment to 10 or more full-time employees at that site.

(d) Renewable Energy Development Initiative (REDI Grant). This grant is applied to research for the development of alternative feedstocks for the production of biodiesel.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

7 Expenses

Profit before income tax includes the following specific expenses

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cost of goods sold				
Cost of goods sold - depreciation	2,092,199	330,133	-	-
Cost of goods sold - other manufacturing costs	18,810,874	625,892	-	-
	<u>20,903,073</u>	<u>956,025</u>	-	-
Employee benefits expense				
Wages and salaries	3,086,885	2,706,391	2,371,064	1,119,911
Finance costs				
Bank loans, borrowing costs and overdrafts	351,545	102,683	275,996	97,945
Depreciation and amortisation - administration				
Amortisation	630,962	41,048	346,108	41,048
Depreciation - other	304,494	75,117	76,011	36,777
	<u>935,456</u>	<u>116,165</u>	<u>422,119</u>	<u>77,825</u>
Lease payments - included in Administrative expenses				
Finance lease interest costs	9,459	2,090	-	-
Operating lease rental costs	144,483	168,550	71,495	101,839
	<u>153,942</u>	<u>170,640</u>	<u>71,495</u>	<u>101,839</u>
Research and development costs - included in Administrative expenses				
Research and development costs	50,906	5,000	-	5,000
Impairment of assets				
Write down of intangible assets	25,079,418	-	-	-
Write down of tangible assets	4,367,349	-	29,678,559	-
	<u>29,446,767</u>	<u>-</u>	<u>29,678,559</u>	<u>-</u>
Write-down of Inventories	<u>232,209</u>	<u>385,000</u>	<u>-</u>	<u>-</u>

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

8 Income Tax Benefit

	Note	CONSOLIDATED ENTITY		PARENT ENTITY	
		2007 \$	2006 \$	2007 \$	2006 \$
a) Income tax benefit					
Current tax		(3,919,359)	-	(3,919,359)	-
Deferred tax		(6,685,711)	(2,534,422)	-	(1,453,736)
		(10,605,070)	(2,534,422)	(3,919,359)	(1,453,736)
Deferred income tax benefit included in income tax benefit comprises:					
Decrease / (increase) in deferred tax assets	16	(3,919,359)	(2,536,408)	(3,919,359)	(1,455,471)
(Decrease) / increase in deferred tax liabilities	22	(6,685,711)	1,986	-	1,735
		(10,605,070)	(2,534,422)	(3,919,359)	(1,453,736)
b) Numerical reconciliation of income tax expense to prima facie tax payable					
Profit/(Loss) from continuing operations before income tax expense		(44,172,320)	(6,042,203)	(34,291,425)	(2,369,254)
Tax at the Australian tax rate of 30% (2006:30%)		(13,251,696)	(1,812,661)	(10,287,425)	(710,776)
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:					
Share based payment		160,724	172,758	160,724	172,758
Impairment charge		2,148,319	-	8,903,568	-
Other non deductible items		27,721	11,225	27,721	5,170
		(10,914,932)	(1,628,678)	(1,195,414)	(532,848)
Adjustment for permanent differences in Subsidiary Companies (Tax Consolidated Group)		-	-	(3,033,809)	-
Prior year losses now recognised		-	(1,227,334)	-	(1,222,579)
Prior year deferred tax balances now recognised		-	321,590	-	301,691
Tax effect of current year tax losses for which no deferred tax asset has been recognised		309,862	-	309,862	-
Income tax benefit		(10,605,070)	(2,534,422)	(3,919,359)	(1,453,736)
(c) Amounts recognised directly in equity					
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit and loss but directly debited or credited directly to equity:					
Current tax		-	-	-	-
Deferred tax		-	1,294,233	-	1,293,090
(d) Tax losses and temporary differences unrecognised					
Deferred tax assets not recognised relate to the following:					
Tax losses		1,302,873	-	1,302,873	-
Other temporary differences		-	-	-	-
		1,302,873	-	1,302,873	-

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

8 Income Tax Benefit (continued)

Tax effect accounting by members of the tax consolidated Group

Members of the tax consolidated Group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated Group in accordance with their accounting profit for the period, while deferred taxes are allocated to members of the tax consolidated Group in accordance with the principles of AASB 112 Income Taxes.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' inter-company accounts with the tax consolidated Group head Company, Australian Renewable Fuels Limited. Because under UIG 1052 Tax Consolidation Accounting the allocation of current taxes to tax consolidated Group members on the basis of accounting profits is not an acceptable method of allocation given the Group's circumstances, the difference between the current tax amount that is allocated under the tax funding agreement and the amount that is allocated under an acceptable method is recognised as a contribution/distribution of the subsidiaries' equity accounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group.

9 Current Assets - Cash and cash equivalents

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash at bank and on hand	6,081,472	8,914,527	6,406,615	9,117,971
Short-term deposits	-	1,108,588	-	1,108,588
	<u>6,081,472</u>	<u>10,023,115</u>	<u>6,406,615</u>	<u>10,226,559</u>

(a) Reconciliation of cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows

	\$	\$	\$	\$
Balances as above	6,081,472	10,023,115	6,406,615	10,226,559
Balances as per statement of cash flows	<u>6,081,472</u>	<u>10,023,115</u>	<u>6,406,615</u>	<u>10,226,559</u>

10 Current Assets - Trade and other receivables

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Trade receivables (i)	1,569,547	8,678	447,576	-
Other receivables (ii)	-	221,490	-	114,007
Prepayments (iii)	684,351	938,410	497,631	63,843
	<u>2,253,898</u>	<u>1,168,578</u>	<u>945,207</u>	<u>177,850</u>

i) Trade receivables are non-interest bearing and are generally on 5-30 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.

ii) Consists of GST recoverable and accrued interest receivable on cash deposits.

iii) Consists of prepaid expenses including carried forward expenditure relating to Group expansion within Australia.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

11 Current Assets - Inventories

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Finished goods (at net realisable value)	2,133,540	720,224	-	-
Raw material (at cost)	1,085,221	1,213,072	-	-
Maintenance spares	1,011,790	-	-	-
Total inventories at the lower of cost and net realisable value	4,230,551	1,933,296	-	-

The amount required to write down the finished goods inventory at 30 June 2007 from cost to net realisable value is \$232,209 (2006: \$385,000).

12 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) Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments.

The fair value of borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of loan notes and other financial assets have been calculated using market interest rates.

	Carrying Amount		Fair Value	
	2007	2006	2007	2006
	\$	\$	\$	\$
CONSOLIDATED				
<i>Financial assets</i>				
Cash and cash equivalents	6,081,472	10,023,115	6,081,472	10,023,115
Trade and other receivables	2,253,898	1,168,578	2,253,898	1,168,578
	8,335,370	11,191,693	8,335,370	11,191,693
<i>Financial liabilities</i>				
Trade and other payables	3,391,336	4,358,138	3,391,336	4,358,138
Bank loan	1,200,000	-	1,200,000	-
Finance Loans	114,276	98,970	114,276	98,970
Non-interest bearing liabilities	400,000	650,000	400,000	650,000
	5,105,612	5,107,108	5,105,612	5,107,108
PARENT				
<i>Financial assets</i>				
Cash	6,406,615	10,226,559	6,406,615	10,226,559
Trade and other receivables	945,207	177,850	945,207	177,850
Loans to controlled entities	44,508,908	45,947,100	44,508,908	45,519,303
	51,860,730	51,351,509	52,860,730	55,923,712
<i>Financial liabilities</i>				
Trade and other payables	1,732,801	2,860,433	-	2,860,433
Other financial liabilities	400,000	650,000	400,000	650,000
Bank loan	1,200,000	-	1,200,000	-
	3,332,801	3,510,433	1,600,000	3,510,433

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

12 Financial instruments (continued)

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 table below. 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.

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

Financial year ended 30 June 2007

Consolidated	Note	FIXED INTEREST MATURING IN:					Total
		Floating Interest rate	1 year or less	Between 1 and 5 years	More than 5 years	Non-interest bearing	
		\$	\$	\$	\$	\$	\$
Financial assets							
Cash	9	6,081,472	-	-	-	-	6,081,472
Trade receivables - current	10	-	-	-	-	2,253,898	2,253,898
		<u>6,081,472</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,253,898</u>	<u>8,335,370</u>
There are no fixed interest maturities							
Financial liabilities							
Finance Loans	19/21	-	30,128	84,148	-	-	114,276
Bank Loan	19						
-Current variable rate 7.83%			1,200,000				1,200,000
Trade and other payables	18	-	-	-	-	3,391,336	3,391,336
Other	23	-	-	-	-	400,000	400,000
		<u>-</u>	<u>1,230,128</u>	<u>84,148</u>	<u>-</u>	<u>3,791,336</u>	<u>5,105,612</u>
Net financial assets (liabilities)		<u>-</u>	<u>(1,230,128)</u>	<u>(84,148)</u>	<u>-</u>	<u>4,544,034</u>	<u>3,229,758</u>
Weighted average interest rate			7.86%	9%	-		

Financial year ended 30 June 2006

Consolidated	Note	FIXED INTEREST MATURING IN:					Total
		Floating Interest rate	1 year or less	Between 1 and 5 years	More than 5 years	Non-interest bearing	
		\$	\$	\$	\$	\$	\$
Financial assets							
Cash and deposits	9	8,914,527	1,108,588	-	-	-	10,023,115
- Current variable rate 4.15%							
Trade receivables - current	10	-	-	-	-	1,168,578	1,168,578
		<u>8,914,527</u>	<u>1,108,588</u>	<u>-</u>	<u>-</u>	<u>1,168,578</u>	<u>11,191,693</u>
Weighted average interest rate			5.38%	-	-		
Financial liabilities							
Finance leases	19/21	-	23,681	75,289	-	-	98,970
Trade and other payables	18	-	-	-	-	4,358,138	4,358,138
Other	23	-	-	-	-	650,000	650,000
		<u>-</u>	<u>23,681</u>	<u>75,289</u>	<u>-</u>	<u>5,008,138</u>	<u>5,107,108</u>
Net financial assets (liabilities)		<u>8,914,527</u>	<u>1,084,907</u>	<u>(75,289)</u>	<u>-</u>	<u>(3,839,560)</u>	<u>6,084,585</u>
Weighted average interest rate			9%	9%	-		

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

13 Non-current assets - Receivables

	Note	CONSOLIDATED ENTITY		PARENT ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$
<i>Loans to related parties</i>	31				
Loans advanced to:		-	-		
Australian Renewable Fuels Adelaide Pty Ltd		-	-	25,827,718	24,325,111
Australian Renewable Fuels Picton Pty Ltd		-	-	28,425,685	20,765,579
ARF Global Pty Ltd		-	-	6,513	2,842
ASG Analytik Pty Ltd		-	-	648,989	851,246
Shelly Nominees Pty Ltd		-	-	6,205	2,322
American Renewable Fuels Inc		-	-	593,798	-
Less provision for impairment		-	-	(11,000,000)	-
		-	-	44,508,908	45,947,100

These loans are non-interest bearing and there is no fixed date of repayment.

14 Non-current assets - Other financial assets

	Note	2007	2006
		\$	\$
Investment in subsidiaries	32	11,242,745	15,600,005
<i>Name:</i>			
ASG Analytik Pty Ltd		1	1
Australian Renewable Fuels Adelaide Pty Ltd		1	1
Australian Renewable Fuels Picton Pty Ltd		2	2
ARF Global Pty Ltd		1	1
Shelly Nominees Pty Ltd		2	15,600,000
American Renewable Fuels Inc	32	11,242,738	-
		11,242,745	15,600,005

These financial assets are carried at cost or impaired value.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

15 Non-current assets - Property, plant and equipment

	CONSOLIDATED ENTITY			PARENT ENTITY		
	Freehold land \$	Plant and equipment \$	Total \$	Freehold land \$	Plant and equipment \$	Total \$
Year ended 30 June 2007						
As at 1 July 2006						
Net of accumulated depreciation and impairment	684,497	44,325,010	45,009,507	684,497	310,044	994,541
Additions	(5,512)	4,349,231	4,343,719	(5,512)	14,788	9,276
Offset of Biofuels Capital Grant	-	(6,789,384)	(6,789,384)	-	-	-
Depreciation charge for the year	-	(2,396,693)	(2,396,693)	-	(76,011)	(76,011)
Impairment of assets (b)	-	(4,367,349)	(4,367,349)	-	-	-
Net of accumulated depreciation and impairment	678,985	35,120,815	35,799,800	678,985	248,821	927,806
At 1 July 2006						
Cost or fair value	684,497	44,740,700	45,425,197	684,497	356,514	1,041,011
Accumulated depreciation	-	(415,690)	(415,690)	-	(46,470)	(46,470)
Net carrying amount	684,497	44,325,010	45,009,507	684,497	310,044	994,541
At 30 June 2007						
Cost or fair value	678,985	49,089,931	49,768,916	678,985	371,302	1,050,287
Offset of Biofuels Capital Grant	-	(6,789,384)	(6,789,384)	-	-	-
Accumulated depreciation and impairment	-	(7,179,732)	(7,179,732)	-	(122,481)	(122,481)
Net carrying amount	678,985	35,120,815	35,799,800	678,985	248,821	927,806

	CONSOLIDATED ENTITY			PARENT ENTITY		
	Freehold land \$	Plant and equipment \$	Total \$	Freehold land \$	Plant and equipment \$	Total \$
Year ended 30 June 2006						
As at 1 July 2005						
Net of accumulated depreciation and impairment	682,200	9,749,261	10,431,461	682,200	98,640	780,840
Additions	2,297	34,980,999	34,983,296	2,297	247,434	249,731
Depreciation charge for the year	-	(405,250)	(405,250)	-	(36,030)	(36,030)
Net of accumulated depreciation	684,497	44,325,010	45,009,507	684,497	310,044	994,541
At 30 June 2006						
Cost or fair value	684,497	44,740,700	45,425,197	684,497	356,514	1,041,011
Accumulated depreciation	-	(415,690)	(415,690)	-	(46,470)	(46,470)
Net carrying amount	684,497	44,325,010	45,009,507	684,497	310,044	994,541

The useful life of the assets was estimated as follows both for 2006 and 2007:

Manufacturing plant and industrial buildings:	20 years
Motor vehicles:	8 years
Office Equipment:	7 years
Office Furniture:	7 years

The carrying value of plant and equipment, (consisting of motor vehicles), held under finance leases at 30 June 2007 is \$99,336 (2006: \$114,498).

Leased assets are pledged as security for the related finance lease liabilities

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

15 Non-current assets - Property, plant and equipment (continued)

(a) Impairment tests for fixed assets and intangible assets

Due to the decrease in cash flows resulting from unrealised sales contracts the company has undertaken an impairment assessment of its cash generating units. The recoverable amount of a cash generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets over a 5 year period.

(b) Key assumptions used for value-in-use calculations

	Gross margin 2007 %	Growth rate 2007 %	Discount rate 2007 %
Consolidated			
Australian Renewable Fuels Adelaide Pty Ltd	2.68	10	14.93
Australian Renewable Fuels Picton Pty Ltd	(8.62)	10	14.93
Australian Renewable Fuels Ltd (<i>Parent</i>)	-	10	14.93

(c) Impact of possible changes in key assumptions

Due to exceptional circumstances, feedstock prices have increased from an average of approx \$500 a tonne to current levels of approximately \$800. The model has assumed that feedstock prices will ease marginally over the next 5 years, and the model has incorporated this on a sliding scale.

Should feedstock prices remain at their current levels going forward and should the Group not be able to locate alternative cheaper feedstocks, or have the benefit of increasing off-take prices, the impairment model indicates a further impairment charge of \$14 million across both plants.

Management does not consider a change in any of the other key assumptions to be reasonably possible.

(d) Impairment charge

An impairment charge has been recognised against the carry value of the Adelaide Plant due to lower than expected sales for the past year and the immediate future. Related to the decrease in sales expectation and the company not being in a cash flow positive position, the company has also impaired the carry value of its intangible assets, being the Biodiesel Royalty Buy Back and the Capitalised Development Costs to a carrying value of nil. Refer Note 17.

16 Non-current assets - Deferred tax assets

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
The balance comprises temporary differences attributable to amounts recognised in profit or loss				
Tax losses	4,172,223	2,843,292	4,172,223	1,789,213
Sundry items	-	134,471	-	106,961
Amortisation of share issue expenses	(252,864)	(441,355)	(252,864)	(440,703)
	3,919,359	2,536,408	3,919,359	1,455,471
Amounts recognised directly in equity:				
Share issue costs	-	1,294,233	-	1,293,090
Subsidiary tax losses assumed by Parent	-	-	-	1,022,833
	3,919,359	3,830,641	3,919,359	3,771,394
Movements				
Opening balance at 1 July	3,830,641	-	3,771,394	-
Credited / (charged) to income statements	3,919,359	2,536,408	1,219,445	1,455,471
Credited / (charged) to equity	-	1,294,233	-	1,293,090
Subsidiary tax losses assumed by Parent entity	-	-	2,699,914	1,022,833
Closing balance at 30 June 2007	7,750,000	3,830,641	7,690,753	3,771,394

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

17 Non-current assets - Intangible assets

Consolidated Entity	Capitalised Development Costs \$	Biodiesel Royalty Buy Back \$	Australian and U.S. Patent and other Rights \$	Total \$
At 1 July 2006				
Cost (gross carrying amount)	3,283,800	22,285,711	6,470,218	32,039,729
Accumulated amortisation	(41,048)	-	-	(41,048)
Net carrying amount	<u>3,242,752</u>	<u>22,285,711</u>	<u>6,470,218</u>	<u>31,998,681</u>
Year ended 30 June 2007				
Opening net carrying amount (at 1 July 2006)	3,242,752	22,285,711	6,470,218	31,998,681
Additions	-	-	11,893,651	11,893,651
Amortisation charge	(164,191)	(284,854)	(181,917)	(630,962)
Impairment of assets (a)	(3,078,561)	(22,000,857)	-	(25,079,418)
Net carrying amount	<u>-</u>	<u>-</u>	<u>18,181,952</u>	<u>18,181,952</u>
At 30 June 2007				
Cost (gross carrying amount)	3,283,800	22,285,711	18,363,869	43,933,380
Accumulated amortisation and impairment (a)	(3,283,800)	(22,285,711)	(181,917)	(25,751,428)
Net carrying amount	<u>-</u>	<u>-</u>	<u>18,181,952</u>	<u>18,181,952</u>
Parent Entity				
	Capitalised Development Costs \$	U.S. Patents Rights \$	Australian Patents Rights \$	Total \$
At 1 July 2006				
Cost (gross carrying amount)	3,283,800	5,863,232	586,499	9,733,531
Accumulated amortisation	(41,048)	-	-	(41,048)
Net carrying amount	<u>3,242,752</u>	<u>5,863,232</u>	<u>586,499</u>	<u>9,692,483</u>
Year ended 30 June 2007				
Opening net carrying amount (at 1 July 2006)	3,242,752	5,863,232	586,499	9,692,483
Additions/(transfer to related party)	-	(5,863,232)	55,298	(5,807,934)
Amortisation charge	(164,191)	-	(181,917)	(346,108)
Impairment of assets (a)	(3,078,561)	-	-	(3,078,561)
Net carrying amount	<u>-</u>	<u>-</u>	<u>459,880</u>	<u>459,880</u>
At 30 June 2007				
Cost (gross carrying amount)	3,283,800	-	641,797	3,925,597
Accumulated amortisation and impairment (a)	(3,283,800)	-	(181,917)	(3,465,717)
Net carrying amount	<u>-</u>	<u>-</u>	<u>459,880</u>	<u>459,880</u>

(a) Details of the impairment charge of \$25,079,418 have been disclosed in note 15.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

17 Non-current assets - Intangible assets (continued)

Consolidated Entity	Capitalised Development Costs \$	Biodiesel Royalty Buy Back \$	Australian and U.S. Patent and other Rights \$	Total \$
At 1 July 2005				
Cost (gross carrying amount)	3,283,800	22,285,711	-	25,569,511
Accumulated amortisation and impairment	-	-	-	-
Net carrying amount	<u>3,283,800</u>	<u>22,285,711</u>	<u>-</u>	<u>25,569,511</u>
Year ended 30 June 2006				
Opening net carrying amount (at 1 July 2005)	3,283,800	22,285,711	-	25,569,511
Additions	-	-	6,470,218	6,470,218
Amortisation charge	(41,048)	-	-	(41,048)
Net carrying amount	<u>3,242,752</u>	<u>22,285,711</u>	<u>6,470,218</u>	<u>31,998,681</u>
At 30 June 2006				
Cost (gross carrying amount)	3,283,800	22,285,711	6,470,218	32,039,729
Accumulated amortisation	(41,048)	-	-	(41,048)
Net carrying amount	<u>3,242,752</u>	<u>22,285,711</u>	<u>6,470,218</u>	<u>31,998,681</u>
Parent Entity				
	Capitalised Development Costs \$	Australian and U.S. Patents Rights \$	Total \$	
At 1 July 2005				
Cost (gross carrying amount)	3,283,800	6,449,731	9,733,531	
Accumulated amortisation and impairment	-	-	-	
Net carrying amount	<u>3,283,800</u>	<u>6,449,731</u>	<u>9,733,531</u>	
Year ended 30 June 2006				
Opening net carrying amount (at 1 July 2005)	3,283,800	6,449,731	9,733,531	
Additions	-	-	-	
Amortisation charge	(41,048)	-	(41,048)	
Net carrying amount	<u>3,242,752</u>	<u>6,449,731</u>	<u>9,692,483</u>	
At 30 June 2006				
Cost (gross carrying amount)	3,283,800	6,449,731	9,733,531	
Accumulated amortisation	(41,048)	-	(41,048)	
Net carrying amount	<u>3,242,752</u>	<u>6,449,731</u>	<u>9,692,483</u>	

18 Current liabilities - Trade and other payables

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007 \$	2006 \$	2007 \$	2006 \$
Trade payables*	3,391,336	2,358,138	1,570,222	860,433
Other payables - Mr D Butcher	-	2,000,000	-	2,000,000
Provision for staff leave entitlements	374,553	159,984	162,579	65,491
	<u>3,765,889</u>	<u>4,518,122</u>	<u>1,732,801</u>	<u>2,925,924</u>

*Trade payables are non-interest bearing and are normally settled on 5-30 day terms.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

19 Current liabilities - Borrowings

	Notes	CONSOLIDATED ENTITY		PARENT ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$
Current					
Bank Advance*		1,200,000	-	1,200,000	-
Obligations under finance leases	30	30,128	23,681	-	-
		<u>1,230,128</u>	<u>23,681</u>	<u>1,200,000</u>	<u>-</u>
Non-current					
Obligations under finance leases	30	84,148	75,289	-	-
		<u>84,148</u>	<u>75,289</u>	<u>-</u>	<u>-</u>

At reporting date, the following finance facilities had been negotiated with HSBC Bank Australia Limited and were available:

Total facilities:

- bank overdraft	1,000,000	1,000,000	1,000,000	1,000,000
- import/export line	4,000,000	5,500,000	4,000,000	5,500,000
- Commercial Debtor Finance	2,000,000		2,000,000	
- multiple advance	-	3,000,000	-	3,000,000
- Documentary Letter of Credit	-	1,600,000	-	1,600,000
-other facilities	335,000	260,000	335,000	260,000
	<u>7,335,000</u>	<u>11,360,000</u>	<u>7,335,000</u>	<u>11,360,000</u>

Facilities used at reporting date

- import/export line	1,200,000	-	1,200,000	-
- other facilities	335,000	250,500	335,000	-
	<u>1,535,000</u>	<u>250,500</u>	<u>1,535,000</u>	<u>-</u>

*Bank Advance

The Bank Advance represents a partial drawdown of the company's working capital facility with HSBC Bank. The total sub-facility is for an amount of \$4 million and is for a maximum tenor of 60 days. Interest on drawdowns is payable in arrears. Current interest rate on the advance is 7.86% per annum.

Security

The bank facilities listed above are secured by the following:

- First Registered Fixed and Floating Charge over the Group's assets;
- Cross Guarantee and Indemnity given by the Group; and (note 33)

The HSBC bank overdraft facilities listed above may be drawn at any time and may be terminated by the bank at any time without notice.

Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current interest bearing liabilities are:

	Notes	CONSOLIDATED ENTITY		PARENT ENTITY	
		2007	2006	2007	2006
		\$	\$	\$	\$
Current assets					
<i>Floating charge</i>					
Cash and cash equivalents	9	6,081,472	10,023,115	6,406,615	10,226,559
Trade and other receivables	10	2,253,898	1,168,578	945,207	177,850
Inventories	11	4,230,551	1,933,296	-	-
Total current assets pledged as security		<u>12,565,921</u>	<u>13,124,989</u>	<u>7,351,822</u>	<u>10,404,409</u>
Non-current assets					
<i>Finance lease and first registered fixed charge</i>					
Property, plant and equipment	15	35,799,800	45,009,507	927,806	994,541
Intangible assets	17	18,181,952	31,998,681	459,880	9,692,483
Total non-current assets pledged as security		<u>53,981,752</u>	<u>77,008,188</u>	<u>1,387,686</u>	<u>10,687,024</u>
Total assets pledged as security		<u>66,547,673</u>	<u>90,133,177</u>	<u>8,739,508</u>	<u>21,091,433</u>

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

20 Current liabilities - Government Grants

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Grants received	-	1,786,000	-	-

During the current financial period, the balance of the Biofuels Capital Grant was received, \$5,360,040. In accordance with the newly adopted Australian equivalents to International Financial Reporting (AIRFS), the full amount of the grant (\$7,146,040) was initially recognised as a liability to be amortised over the life of the underlying asset, the biodiesel manufacturing plant at Birkenhead, South Australia. An amount of \$357,336 (2006 - nil) was recognised as income during the current financial year and the balance, \$6,789,384 was offset against the carrying value of the Birkenhead plant.

21 Non-current liabilities - Borrowings

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Obligations under finance leases	84,148	75,289	-	-

22 Non-current liabilities - Deferred tax liabilities

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss:				-
Accrued interest	-	1,986	-	1,735
	-	1,986	-	1,735
Movements				
Opening Balance at 1 July 2006	6,687,699	6,685,713	1,735	
Credited/(charged) to profit and loss	(6,685,711)	1,986	-	1,735
Closing balance at 30 June 2007	1,988	6,687,699	1,735	1,735
Deferred tax liabilities to be settled in 12 months	-	6,685,711	-	-
Deferred tax liabilities to be settled greater than 12 months	1,998	1,986	1,735	1,735

23 Non-interest bearing liabilities

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
WA Government Loan	400,000	650,000	400,000	650,000

The Loan is convertible to a grant over a five year period when certain conditions are met. The loan is non-interest bearing.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

24 Contributed equity

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Ordinary shares (issued and fully paid)	99,694,398	83,778,829	99,694,398	83,778,829

Fully paid ordinary shares carry one vote per share and carry the right to dividends

Movement in ordinary share capital during the year	CONSOLIDATED ENTITY		PARENT ENTITY	
	No. of Shares	\$	No. of Shares	\$
At 1 July 2006	124,200,001	83,778,829	124,200,001	83,778,829
Share issues during the year:				
Share placement	9,000,000	3,150,000	9,000,000	3,150,000
Rights Issue	33,300,000	11,655,000	33,300,000	11,655,000
Debt to equity conversion	5,714,286	2,000,000	5,714,286	2,000,000
Exercise of share options	4,000	2,400	4,000	2,400
Transfer contributed equity of expired options expense		35,291		35,291
Transaction costs on share issues	-	(957,122)	-	(957,122)
Balance at end of year	172,218,287	99,664,398	172,218,287	99,664,398

(a) Listed Share Options

Listed options over ordinary shares:

There were 48,010,286 listed options in the Company exercisable at 60 cents each expiring on 24 April 2009 and 30 June 2007 (2006: nil)

(b) Employee Share Scheme:

Information relating to the employee share scheme including details of shares issued under the scheme is set out in note 37.

(c) Options

Information relating to the Australian Renewable Fuels Limited Employee Options Plan including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in note 37.

(d) Rights Issue

On 23 April 2007 the Company invited shareholders to subscribe to a Rights Issue of 33,300,000 ordinary shares at an issue price of 35 cents per share, on a basis of 1 share for every 4 fully, or partly paid, ordinary shares held. The issue was fully subscribed.

(e) Debt equity conversion

- (i) Immediately prior to the Rights Issue described in note 24(d) above, the Company was indebted for loan funds advanced to the Company by:

Amadeus Energy Limited	2,855,553
Mr D Butcher	1,049,484
	<u>3,905,037</u>

The above parties applied for and were allotted Ordinary Shares in the Rights Issue on the same terms and conditions as all other shareholders.

- (ii) In April 2007 a debt owing to Mr D Butcher arising from the purchase of all his shares in Shelley Nominees Pty Ltd in 2005 was converted with shareholder consent to Ordinary Shares in the Company. On the same terms and conditions as the Rights Issue.
- | | |
|--|------------------|
| | 2,000,000 |
| | <u>5,905,037</u> |

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

25 Reserves and accumulated losses

a) Accumulated losses

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Movement in accumulated losses was as follows:				
Balance 1 July	(4,151,452)	(643,671)	(1,540,379)	(624,861)
Net loss for the year after tax	(33,567,250)	(3,507,781)	(30,372,066)	(915,518)
Balance 30 June	(37,718,702)	(4,151,452)	(31,912,445)	(1,540,379)

b) Reserves

	CONSOLIDATED	PARENT
	\$	\$
At 1 July 2005	19,111	19,111
Employee options issued	575,859	575,859
At 30 June 2006	594,970	594,970
Employee options issued	535,746	535,746
Options cancelled	(35,291)	(35,291)
Foreign currency translation	(142,516)	-
At 30 June 2007	952,909	1,095,425

Employee equity benefits reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 37 for further details of these plans

Foreign Currency Translation Reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d).

26 Dividends

During the period no dividends were paid or proposed

27 Key management personnel disclosures

(A) Details of key management personnel

(i) Directors

Alan J Mulgrew	Chairman (non-executive)
Robert N Scott	Deputy Chairman (non-executive)
Max L Ger	Finance Director
Geoffrey F Towner	Director (non-executive)
Glyn Denison	Director (non-executive)
Graham M Scott	Director (non-executive)

(ii) Key Executives

John Lillywhite	Chief Executive Officer - appointed 1 January 2007
Max Ger	Chief Financial Officer
Adrian Carpenter	Technical Development Manager
Paul Stenzel	Commodity Supply Manager
Paul White	State Manager - South Australia
Terry King	Sales & Marketing Manager
Fred Santich	Project Manager (resigned March 2007)

Mr J E Lillywhite was appointed Managing Director on 21 September 2007.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

27 Key management personnel disclosures (continued)

(B) Key management personnel compensation

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the Directors report. The relevant information can be found in the 'Directors Remuneration' in the Directors report

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Short term employee benefits	1,509,649	944,342	1,509,649	944,342
Post-employment benefits	72,010	26,941	72,010	26,941
Share based payments	456,613	465,024	456,613	465,024
	<u>2,038,272</u>	<u>1,436,307</u>	<u>2,038,272</u>	<u>1,436,307</u>

(C) Option holdings of key management personnel (consolidated)

	Balance at beginning of period 01-07-06	Granted as remuneration/ (lapsed)	Balance at end of period 30-06-07	Total	Vested and Exercisable	Not Exercisable
30 June 2007						
Director						
Mr M Ger	525,000	800,000	1,325,000	1,325,000	350,000	975,000
Executives						
Mr J Lillywhite	-	3,000,000	3,000,000	3,000,000	-	3,000,000
Mr T King	300,000	-	300,000	300,000	200,000	100,000
Mr F Santich - resigned	300,000	(300,000)	-	-	-	-
Mr P White	300,000	-	300,000	300,000	200,000	100,000
Mr A Carpenter	200,000	-	200,000	200,000	65,000	135,000
Mr P Stenzel	300,000	-	300,000	300,000	100,000	200,000
	<u>1,925,000</u>	<u>3,500,000</u>	<u>5,425,000</u>	<u>5,425,000</u>	<u>915,000</u>	<u>4,510,000</u>

Year ended 30 June 2006:

	Balance at beginning of period 01-07-05	Granted as remuneration	Balance at end of period 30-06-06	Total	Vested and Exercisable	Not Exercisable
30 June 2006						
Director						
Mr M Ger	225,000	300,000	525,000	525,000	175,000	350,000
Executives						
Mr T King	-	300,000	300,000	300,000	100,000	200,000
Mr P White	-	300,000	300,000	300,000	100,000	200,000
Mr F Santich	-	300,000	300,000	300,000	100,000	200,000
	<u>225,000</u>	<u>1,200,000</u>	<u>1,425,000</u>	<u>1,425,000</u>	<u>475,000</u>	<u>950,000</u>

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

27 Key management personnel disclosures (continued)

Shareholdings of key management personnel (consolidated)

Shares held in Australian Renewable Fuels Limited

	Balance 01-07-06 Ord	Net change Acquired/(Sold) Ord	Balance 30-06-07 Ord
June 2007			
Directors			
Mr A Mulgrew	-	-	-
Mr R Scott*	-	-	-
Mr M Ger***	-	-	-
Mr G Denison****	-	345,396	345,396
Mr G Scott*****	-	-	-
Mr G Towner*	-	-	-
Executives			
Mr J Lillywhite	-	-	-
Mr P White	200,000	-	200,000
Mr T King	-	-	-
Mr P Stenzel	-	-	-
Mr A Carpenter	-	-	-
	200,000	345,396	545,396

	Balance 01-07-05 Ord	Net change Acquired/(sold) Ord	Balance 30-06-06 Ord
June 2006			
Directors			
Mr R Scott*	-	-	-
Mr D Butcher**	12,600,000	-	12,600,000
Mr M Ger***	20,000	(20,000)	-
Mr G Denison****	-	-	-
Mr G Scott*****	-	-	-
Mr G Towner*	-	-	-
Executives			
Mr F Santich	40,000	-	40,000
Mr P White	200,000	-	200,000
Mr T King	-	-	-
	12,860,000	(20,000)	12,840,000

Notes:

- * Mr Robert Scott and Mr Geoffrey Towner are directors of Amadeus Energy Limited which holds 42.49 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 Max Ger is a director of Picola Holdings Pty Ltd which held 20,000 Shares in ARF. The Shares were sold on market on 10 May 2006.
- **** Mr Denison executed an option to acquire 1% of Amadeus' shareholding in ARF (342,667 Shares). He jointly owns a further 2,729 shares with a third party.
- ***** Mr Graham Scott is a director of SANT which holds 13.92 million (2006: 11.13 million) shares in ARF and 2,783,334 options over ordinary shares at an issue price of 60 cents prior to 24 April 2009.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

28 Remuneration of auditors

The auditor of Australian Renewable Fuels Limited is BDO Kendalls Audit & Assurance (WA) Pty Ltd

Amounts received or receivable by BDO Kendalls Audit & Assurance (WA) Pty Ltd for:

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
An audit or review of the financial report of the entity and any other entity in the consolidated Group	66,246	15,876	66,246	15,876
Fees incurred relating to prior year	33,204	-	33,204	-

Amounts received or receivable by non BDO Kendalls Audit & Assurance (WA) Pty Ltd and related firms for:

Taxation services	4,875	24,950	4,875	24,950
Corporate finance services	27,750	72,222	27,750	72,222
	<u>32,625</u>	<u>97,172</u>	<u>32,625</u>	<u>97,172</u>

29 Contingencies

Contingent liabilities

The Group has received the full proceeds of the Federal Government's Biofuels Capital Infrastructure Grant amounting to \$7,146,720 in respect of the Group's Largs Bay, South Australian, biodiesel plant. The Commonwealth Government may require the Group to repay all or part of the grant funds received if at any time:

- the Largs Bay plant ("the plant") is decommissioned so that it is no longer able to produce biodiesel in accordance with the Grant Funding Deed, or,
- if within three years of 4 May 2007 (date of commissioning of the Largs Bay Plant under the Funding Deed) the plant fails to produce a volume of biodiesel equal to at least 90% of the Agreed Production under the deed (44.667 million litres of biodiesel per annum).

Over the three year period after the date of commissioning the annual average volume of biodiesel produced by the plant must be equal to the Agreed production.

The ARF Group must ensure that the 44.667 million litres of biodiesel per annum produced, is sold into the Australian transport market for consumption in Australia, within 3 months of the end of the year in which the biodiesel is produced. In the event that the ARF Group can demonstrate non performance of the above requirement results from an event beyond its control and that the Group could not reasonably be expected to have avoided or have overcome the event leading to the default, the Commonwealth Government undertakes not to take any action under the Funding Deed in respect of the non performance.

The ARF Group is required under the Deed to ensure that biodiesel production by the plant meets all applicable Fuel Standards in accordance with requirements of the Fuel Quality Standards Act 2000.

The ARF Group must ensure that all feedstock used in connection with the biodiesel production is from renewable sources or biomass produced waste product.

In satisfying the Government's requirements for retention of the grant, the ARF Group may rely on the target volumes being delivered into the Australian transport market from either or both of the Group's biodiesel plants situated at Largs Bay, South Australia and Picton, Western Australia.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

30 Commitments

Operating lease commitments

The Group has entered into commercial property leases on its corporate office and Adelaide site. The corporate lease has a remaining life of 2 years and the Adelaide site 3 years. There are no restrictions placed upon the lessee by entering into the 2 leases.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Operating lease commitments				
Future operating lease commitments not provided				
For in the financial statements and payable:				
Within one year	150,446	151,942	92,937	90,349
One year or later and not later than 2 years	150,446	140,357	92,937	90,349
Two years or later and not later than 4 years	106,685	280,714	-	135,524
	<u>407,577</u>	<u>573,013</u>	<u>185,874</u>	<u>316,222</u>

Finance lease commitments

The Group has entered into finance leases for motor vehicles and forklifts. These leases have an average life of 4 years. There are no finance leases entered into through the Parent Entity.

Future minimum lease payments under finance leases together with the present value of the minimum lease payments are as follows:

	2007		2006	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
	\$	\$	\$	\$
CONSOLIDATED ENTITY				
Within one year	30,128	23,585	24,402	22,018
After one year but not more than five years	84,148	65,873	76,316	70,690
Total minimum lease payments	114,276	89,458	100,718	92,708
Less amounts representing finance charges	(24,818)	-	(8,010)	-
Present value of minimum lease payments	<u>89,458</u>	<u>89,458</u>	<u>92,708</u>	<u>92,708</u>

Other expenditure commitments

The remaining capital commitments for the two biodiesel plants located at Largs Bay, South Australia and Picton, Western Australia are set out below. 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 achievement of certain construction and performance milestones.

Commitments contracted for at reporting date but not recognised as liabilities are as follows:

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Within one year	<u>1,228,823</u>	<u>2,684,526</u>	-	-

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

31 Related party transactions

(a) Parent Entity

The Parent entity within the group is Australian Renewable Fuels Limited.

(b) Subsidiaries

Interest in subsidiaries is set out in note 32.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 27.

(c) Loans to related parties

The following transactions occurred with related parties

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
<i>Loans to related parties</i>				
Loans advanced to:				
Australian Renewable Fuels Adelaide Pty Ltd	-	-	25,827,718	24,325,111
Australian Renewable Fuels Picton Pty Ltd	-	-	28,425,685	20,765,579
ARF Global Pty Ltd	-	-	6,513	2,842
ASG Analytik Pty Ltd	-	-	648,989	851,246
Shelly Nominees Pty Ltd	-	-	6,205	2,322
American Renewable Fuels Inc	-	-	593,798	-
Less provision for impairment	-	-	(11,000,000)	-
	-	-	44,508,908	45,947,100

There were no repayments of loans during the year.

(d) Guarantees

The parent entity is provided guarantees as referred to in note 33.

32 Subsidiaries

	Country of Incorporation	PARENT ENTITY			
		2007	% Held 2007	2006	% Held 2006
		\$		\$	
Investment in subsidiaries		11,242,745		15,600,005	
<i>Name:</i>					
ASG Analytik Pty Ltd	Australia	1	50%	1	50%
Australian Renewable Fuels Adelaide Pty Ltd	Australia	1	100%	1	100%
Australian Renewable Fuels Picton Pty Ltd	Australia	2	100%	2	100%
ARF Global Pty Ltd	Australia	1	100%	1	100%
Shelly Nominees Pty Ltd	Australia	2	100%	15,600,000	100%
American Renewable Fuels Inc	USA	11,242,738	65.52%	-	-
		11,242,745		15,600,005	

These financial assets are carried at cost.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

32 Subsidiaries (continued)

American Renewable Fuels Inc (ARF Inc) - Incorporation and Issued Share Capital

- ARF Inc was incorporated on 29 August 2006 in the State of Delaware, USA, with the authority to issue 23,500,000 shares of Common Stock;
- On 27 November 2006, 100,000 shares of Common Stock in ARF Inc were issued to Australian Renewable Fuels Limited (ARF Limited) at an issue price of US\$0.0001 each;
- On 13 December 2006, 13,400,750 shares of Common Stock were issued to ARF Limited and 9,999,250 shares of Common Stock were issued to Energea Umwelttechnologie GmbH (Energea), at an issue price of US\$0.0001 each. This allocation of Common Stock to Energea was in consideration of all of Energea's right, title and interest in its patent rights for the NAFTA Zone, as well as a right to exploit the technology and know-how for the construction and operation of plants of any capacity to produce biodiesel in the NAFTA Zone. The NAFTA Zone includes the area comprising the United States of America, Canada and Mexico;
- On 6 February 2007, the board of directors and stockholders of ARF Inc resolved to increase the authorised share capital of ARF Inc to 50,000,000 shares of Common Stock and 1,000,000 shares of Preferred Stock;
- On 15 February 2007, 5,500,000 shares in ARF Inc were issued to the ARF Limited pursuant to a resolution of the board of directors and stockholders of ARF Inc, so that the shareholding in ARF Inc became: ARF Limited 65.52% and Energea 34.48%;
- In May 2007, the board of directors and stockholders of ARF Inc resolved to increase the authorised capital of Preferred Stock to 5,000,000 shares.

The current shareholders of ARF Inc are:

	Number of Shares Held	%
Australian Renewable Fuels Limited	19,000,750	65.52
Energea Umwelttechnologie GmbH	9,999,250	34.48
	29,000,000	100.00

Total cost of ARF Limited's equity in ARF Inc: A\$11,242,738

	100%	65.52%
Contributed equity of ARF Inc	<u>A\$6,982,678</u>	A\$4,575,051
Excess paid to secure majority shareholding in ARF Inc (NAFTA Rights to Energea technology)		A\$6,667,687
		A\$11,242,738
Minority Interest		CONSOLIDATED ENTITY
		\$
Balance at 1 July 2006		-
Acquisition of interest in American Renewable Fuels Inc during the year ended 30 June 2007, comprising share of contributed equity and NAFTA technology increment in the consolidated financial statements.		5,916,915
Balance at 30 June 2007		5,916,915

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

33 Deed of cross guarantee

Australian Renewable Fuels Limited, Australian Renewable Fuels Adelaide Pty Ltd and Australian Renewable Fuels Picton Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others to HSBC Bank. Refer note 19.

34 Events occurring after the balance sheet date

Mr J E Lillywhite was appointed Managing Director of Australian Renewable Fuels Limited on 21 September 2007.

35 Reconciliation of net loss after tax to net cash flows from operations

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Net loss after tax	(33,567,250)	(3,507,781)	(30,372,066)	(915,518)
<i>Adjustments for:</i>				
Depreciation of plant & equipment	2,396,693	405,250	76,011	36,030
Impairment of assets	29,446,767	-	29,678,559	-
Amortisation	630,962	41,048	346,108	41,048
Amortisation - Biofuels Capital Grant	(357,336)	-	-	-
Reduction in Government Loan	(250,000)	-	(250,000)	-
Share options expensed	535,746	575,859	535,746	575,859
<i>Changes in assets and liabilities:</i>				
Decrease/(increase) in trade debtors	(1,085,320)	108,780	(767,357)	647,660
(Increase) in inventory	(2,297,255)	(1,902,909)	-	30,387
(Increase)/decrease in other current assets	-	(449,669)	-	-
(Increase)/decrease in deferred tax assets	(3,919,359)	(2,536,408)	(3,919,359)	(1,455,471)
Increase/(decrease) in deferred tax liabilities	(6,685,711)	1,986	-	1,735
Increase/(decrease) in creditors and accruals	(752,233)	1,743,221	(1,193,123)	(233,664)
Other	1,148	(464,411)	(13,012)	-
Net cash used in operating activities	(15,903,148)	(5,985,034)	(5,878,493)	(1,271,934)

36 Earnings Per Share

Reconciliations and earnings used in calculating earnings per share

	CONSOLIDATED	
	2007	2006
Basic earnings per share	(24.87)	(3.16)
Loss attributable to the ordinary equity holders of the Company used in calculating basic earnings per share.	(33,567,250)	(3,507,781)
Diluted earnings per share	(24.87)	(3.16)
Loss attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share.	(33,567,250)	(3,507,781)
Weighted average number of ordinary shares for basic earnings per share	<u>134,987,671</u>	<u>111,106,849</u>

Since the reporting date, an additional 1,260,000 options at an exercise price of 60 cents each to acquire Ordinary shares in the Company were issued under the Employee Share Option Plan. The earliest exercise date of these options is 1 July 2008 and the options expire on 30 June 2012.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

37 Share-based payments

Share options are granted to executives and staff as part of their remuneration package. There are no cash settlement alternatives. The Employee Option Plan is designed to provide long term incentives for senior managers and above (including executive directors) to deliver long term shareholder returns. Participation in the plan is at the Boards discretion and the no individual has a contractual right to participate in the plan or to received any guaranteed benefits.

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of and movements in share options issued during the year:

	2007	2007	2006	2006
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	2,185,000	1.55	225,000	\$1.00
Cancelled during the year	(530,000)	n/a	-	-
Granted during the year	4,010,000	1.45	1,960,000	\$1.61
Exercised	-	-	-	-
Outstanding at the end of the year	5,665,000	1.48	2,185,000	\$1.55
Exercisable at the end of the year	935,000	\$1.27		

The outstanding balance as at 30 June 2007 is represented by:

No. of Options over Ordinary Shares	Issue price of shares	Date exercisable from	Expiry Date
75,000	\$0.50	18/10/2005	18/10/2009
75,000	\$1.00	10/10/2006	18/10/2009
75,000	\$1.50	18/10/2007	18/10/2009
310,000	\$1.13	30/06/2006	30/06/2010
100,000	\$1.58	17/03/2007	17/03/2011
65,000	\$1.62	24/03/2007	24/03/2011
310,000	\$1.50	30/06/2004	30/06/2010
400,000	\$0.60	18/10/2007	18/05/2012
70,000	\$1.00	06/11/2007	06/11/2011
100,000	\$1.58	17/03/2008	17/03/2011
65,000	\$1.62	24/03/2008	24/03/2011
500,000	\$0.60	02/01/2008	02/01/2012
310,000	\$2.00	30/06/2008	30/06/2010
400,000	\$1.00	18/10/2008	18/05/2012
70,000	\$1.50	06/11/2008	06/11/2011
100,000	\$2.00	17/03/2009	17/03/2011
500,000	\$1.00	02/01/2009	02/01/2012
70,000	\$2.00	24/03/2009	24/03/2011
70,000	\$2.00	06/11/2009	06/11/2011
2,000,000	\$2.00	02/01/2010	02/01/2012
48,010,286	\$0.60	23/04/2007	23/04/2009
53,675,286			

The weighted average remaining contractual life for the share options outstanding as at 30 June 2007 is 4.11 years (2006:4.16 years).

The range of exercise prices for options outstanding at the end of the year was \$0.50 to \$2.00 (2006: \$0.50-\$2.00).

The weighted average fair value of options granted during the year was \$0.194 (2006: \$0.587).

Other than the options that have been cancelled due to terms not being met under the Employee Share Option Plan, no other options have expired.

AUSTRALIAN RENEWABLE FUELS LIMITED AND ITS CONTROLLED ENTITIES

Notes to and forming part of the Accounts

for the year ended 30 June 2007

37 Share-based payments (continued)

The following table lists the inputs to the model used for the years ended 30 June 2005 and 30 June 2007

	2007	2006
Expected volatility (%)	63-91%	63%
Risk-free interest rate (%)	5.65-6.01%	5.75%
Expected life of option (years)	1.5 years	1-4 years
Option exercise price (\$)	Various	various
Weighted average share price at grant date (\$)	\$0.39	\$1.49

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

The following options were granted during the year ended 30 June 2007

Grant date	Total number of options granted	Exercise Price	Date options become exercisable	Expiry Date
06/11/2006	40,000	\$1.00	06/11/2007	06/11/2011
06/11/2006	40,000	\$1.50	06/11/2007	06/11/2011
06/11/2006	40,000	\$2.00	06/11/2007	06/11/2011
06/11/2006	30,000	\$1.00	06/11/2007	06/11/2011
06/11/2006	30,000	\$1.50	06/11/2007	06/11/2011
06/11/2006	30,000	\$2.00	06/11/2007	06/11/2011
20/01/2007	500,000	\$0.60	02/01/2008	02/01/2012
20/01/2007	500,000	\$1.00	02/01/2009	02/01/2012
20/01/2007	2,000,000	\$2.00	02/01/2010	02/01/2012
18/05/2007	400,000	\$1.00	18/10/2007	18/05/2012
18/05/2007	400,000	\$200	18/10/2008	18/05/2012
	4,010,000			

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2007	2006	2007	2006
Options issued under Employee Share Option Plan	\$ 535,746	\$ 575,859	\$ 535,746	\$ 575,859

DIRECTORS' DECLARATION

The directors of Australian Renewable Fuels Limited declare that:

- a) In the directors' opinion, the financial statements and notes, including the remuneration report disclosed within the directors' report designated as audited, for the financial year ended 30 June 2007 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:



A J Mulgrew
Chairman

Dated this 28th day of September 2007



BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay Street
SUBIACO WA 6008
PO Box 700
WEST PERTH WA 6872
Phone 61 8 9380 8400
Fax 61 8 9380 8499
aa.perth@bdo.com.au
www.bdo.com.au

ABN 79 112 284 787

28 September 2007

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

Dear Sirs


DECLARATION OF INDEPENDENCE BY BDO KENDALLS TO THE DIRECTORS OF AUSTRALIAN RENEWABLE FUELS LIMITED

As lead auditor of Australian Renewable Fuels Limited for the year ended 30 June 2007 I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Renewable Fuels Limited and the entities it controlled during the period.

Yours faithfully
BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls


Glyn O'Brien
Director



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUSTRALIAN RENEWABLE FUELS LIMITED

We have audited the accompanying financial report of Australian Renewable Fuels Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the consolidated entity has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report" in the directors' report and not in the financial report. These remuneration disclosures are identified in the directors' report as being subject to audit. The Remuneration Report contains information also, for which an auditor's opinion is not required and has not been formed. Such paragraphs have been identified as such

Directors' Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures Contained in the Directors' Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Australian Renewable Fuels Limited on 28 September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion on the Financial Report


In our opinion the financial report of Australian Renewable Fuels Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Auditor's Opinion on the AASB 124 Remuneration Disclosures Contained in the Directors' Report

In our opinion the remuneration disclosures contained in the directors' report and identified as being subject to audit, comply with Accounting Standard AASB 124

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls


Glyn O'Brien
Director

Subiaco, Western Australia
Dated this 28th day of September 2007

SHAREHOLDERS INFORMATION

The names of the substantial shareholders listed in the holding Company register as at 26 September 2007 are:

Name	Shares held	% of total
ANZ Nominees Limited (Cash Income A/C)	48,498,767	28.16
Citicorp Nominees Pty Limited	16,121,652	9.36
Local Government	13,916,667	8.08
M F Custodians Ltd	11,582,351	6.73

Voting rights

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

Distribution of shareholders as at 31 August 2007

Number of ordinary shares	No. of shareholders	% of issued capital held
1- 1,000	264	0.10
1,001 - 5,000	1,116	1.96
5,001 - 10,000	586	2.77
10,001 - 100,000	1,002	18.54
100,001 and over	96	76.63
Total	3,064	100.00

The number of shareholdings held in less than marketable parcels is 679.

The 20 largest shareholders of fully paid ordinary shares as at 26 September 2007 are:

Name	Shares held	% of total
ANZ Nominees Limited (Cash Income A/C)	48,498,767	28.16
Citicorp Nominees Pty Limited	16,121,652	9.36
Local Government	13,916,667	8.08
M F Custodians Ltd	11,582,351	6.73
Equity Trustees Limited	8,282,269	4.81
Australian Enterprise Holdings Pty Ltd	4,000,000	2.32
UBS Nominees Pty Ltd	1,827,336	1.06
Bushell Nominees Pty Ltd	1,773,952	1.03
Mr Peter Matthewes Bates & Mrs Sandra Christine Bates	1,350,000	0.78
Fortis Clearing Nominees Pty Ltd	1,147,716	0.67
J P Morgan Nominees Australia Limited	1,100,000	0.64
Tpic Ltd	875,000	0.51
Irrewarra Investments Pty Ltd	853,312	0.50
JP Morgan Nominees Australia Limited	675,000	0.39
Wind Corporation Australia Limited	600,000	0.35
UBS Wealth Management Australia Nominees Pty Ltd	597,000	0.35
RPG Management Pty Ltd	594,718	0.35
Mr Darryl Butcher	536,775	0.31
Survale Nominees Pty Ltd	500,000	0.29
Marmulla Holdings Pty Ltd	460,000	0.27
Total	115,292,515	66.96