arfuels
AUSTRALIAN RENEWABLE FUELS LIMITED

**AUSTRALIAN RENEWABLE FUELS LIMITED**
ABN 66 096 782 188

SUITE 3
18 ANGOVE ST
NORTH PERTH WA 6006
PO BOX 119
NORTH PERTH WA 6906

TEL + 61 8 9227 7688
FAX + 61 8 9227 0101
EMAIL info@arfuels.com.au
WEB www.arfuels.com.au

**Friday 29 February 2008**

ASX Release

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

Dear Sir/Madam,

**RE: HALF YEAR REPORT FOR THE 6 MONTHS ENDED 31 DECEMBER 2007**

The Directors of Australian Renewable Fuels Limited (the "Company") herewith lodge the Half-Year Report of the Company (including Appendix 4D) for the six months ended 31 December 2007. Attached also is the Appendix 4C for the month of January 2008.

Yours faithfully,

m. L. Ger

Max L Ger
Finance Director/Company Secretary

**ENDS**

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AUSTRALIAN RENEWABLE FUELS LIMITED

# AND CONTROLLED ENTITIES

ABN 66 096 782 188

# HALF-YEAR REPORT 31 DECEMBER 2007

# CONTENTS PAGE

# AUSTRALIAN RENEWABLE FUELS LIMITED
# AND CONTROLLED ENTITIES
# ABN 66 096 782 188

## CORPORATE DIRECTORY

**Directors**

| | |
|---|---|
| R N Scott | Chairman |
| G F Towner | Director |
| G Denison | Director |

**Company Secretary**

| | |
|---|---|
| T Oosterhof | (Appointed 21/01/08) |
| M L Ger | (Resigned 21/01/08) |

**Principal & Registered Office**
Suite 3, 18 Angove St
North Perth, WA, 6006

| | |
|---|---|
| Telephone | (08) 9227 7688 |
| Facsimile | (08) 9227 0101 |
| Website: | www.arfuels.com.au |

**Postal Address**
PO Box 119
North Perth, WA, 6906

**Stock Exchange Listing**
Australian Stock Exchange
ASX Code: ARW

**Solicitors**
DLA Phillips Fox
L32, 44 St George's Tce
Perth, WA, 6000

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

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

**Share Registry**
Computershare Investor Services Pty Ltd
GPO Box D182
Perth, WA, 6840

# DIRECTORS' REPORT

The directors present their report together with the consolidated financial report of the consolidated entity, being Australian Renewable Fuels Limited ('the Company' or 'ARF') and its controlled entities, for the half-year ended 31 December 2007.

## Directors

The names of directors of the Company at any time during or since the end of the interim period are:

Mr Alan Mulgrew – Non Executive Chairman (Resigned – 30/11/2007)

Mr John Lillywhite – Managing Director (Resigned – 26/11/07)

Mr Robert N Scott – Non Executive Chairman

Max L Ger – Finance Director and Company Secretary (Retired – 26/11/07)

Mr Glyn Denison – Non Executive Director

Mr Graham Scott – Non Executive Director (Resigned – 03/12/2007)

Mr Geoffrey F Towner – Non Executive Director

## Principal Activities

The principal activities of the Group for the period were the manufacture and marketing of biodiesel.

## Operating Results

The consolidated loss after income tax for the half year was $50.94 m (2006: Loss $5.14 m). This loss includes a non-cash impairment charge and write-off of the deferred tax asset totalling $52.2 m.

## Review of Operations

The rapidly changing environment in Australia for biodiesel producers during the six months to December 2007 has necessitated major changes to the manner in which ARF's business has been conducted. Broadly, the three major adverse conditions facing biodiesel producers can be summarised as;

- The cost of feedstock (primarily tallow and canola) has increased by over 50% in the past six months. Notwithstanding the higher oil prices that influence the sale price of biodiesel, margins available to biodiesel producers have significantly diminished;

- Changes in Federal government policy in 2006 relating to fuel excise had a dramatic impact on customers being able to use high blends of biodiesel and diesel above B20;

- The fallout from the sub-prime mortgage environment has proved challenging for ARF's U.S. operations securing funding for its first plant.

ARF, like the majority of biodiesel producers, ceased continuous production at both its Port Adelaide and Picton plants and put both plants on care and maintenance. The Company does undertake spot production from time to time when contracts are secured that provide positive margins.

The Company immediately undertook the necessary restructuring of its business to reduce costs and be able to maintain its biodiesel manufacturing capability. It is able to recommence production when the commercial environment for biodiesel improves.

**Review of Operations (Cont)**

The Company announced to shareholders the retrenchment of almost all its corporate office staff in the last quarter of calendar 2007 as the plants were closed. Operating staff at both plants have also been retrenched except for core operations personnel necessary to maintain the plants and be available for immediate possible restart with improved conditions. Such reductions in staff also included the resignation of the Company's CEO, John Lillywhite.

The Board has also been restructured to reflect the major reduction in activities. The Company's Chairman, Alan Mulgrew, together with the CFO, Max Ger, and non executive director, Graham Scott, resigned from the Board during the period. Max Ger continues with the remaining executive team as the Company's Australian CEO and is leading the Company's orderly restructuring of operations. The directors are very appreciative of Max's continued professional management of the Company in these very difficult conditions. The Board is also delighted that the Company's National Operations Manager, Lorin Sole, remains on in his critical role.

The Company's United States subsidiary, American Renewable Fuels Inc. (ARF Limited 65%) has continued with the feasibility studies for establishing a biodiesel business in the state of New Mexico, USA. ARF Inc raised approximately US$1.5m during the period as seed capital to fund the feasibility study. The Board of ARF Limited continues its policy that the activities of the U.S. company will be self funding. ARF Inc. is now seeking to secure the capital necessary to construct the ARF Group's first U.S. plant. However, these efforts are in an environment where markets in the U.S. are not conducive to securing major capital for greenfields projects. Nevertheless, ARF Inc's President Ross Garrity's team continues to pursue options for securing the finance. The Company has taken a very conservative view of the carrying value of its U.S. operations where financing is difficult for greenfield projects. Accordingly, Directors have made a full impairment in the carrying value of its investment in the U.S. operations in view of the fact at year end financing had not been achieved.

Given the adverse environment caused by current high feedstock costs, the Board has also taken the conservative view to significantly write down the carrying value of the Company's two plants in Australia. However, Directors note that the replacement cost of each of the Australian plants is in excess of $20m and are eager to retain each plant in first class operating condition.

Accordingly, the accounts to December 2007 show an impairment charge of $44.45 m, and the reversal of previously booked future income tax benefit of $7.75 m.

The directors are pleased with the orderly reduction in operating costs over the period and wish to recognize the excellent efforts of staff in expediently bringing the changes into effect.

The Company intends undertaking a number of initiatives over the course of the first half of 2008 that should realise benefits to shareholders and possibly lead to the re-opening of at least one of its the biodiesel plants. The Company is in discussions with customers to take the environmentally friendly biodiesel on terms that will allow its manufacture over the longer term with positive results to ARF. The Company is also considering the sale of surplus land at the Picton plant site. The Company owns approximately 10ha of industrial land at Picton, Western Australia. The Company also intends undertaking a fresh capital raising in coming months to provide working capital that will enable it to restart at least one of its plants on improved terms.

Your directors believe a very prudent approach has been undertaken to limit the negative effects to the business caused by the adverse environment it is operating in. However, the changing environmental conditions are expected to be favourable for ARF over the longer term as the use of biodiesel made from tallow provides significant environmental benefits for customers compared to the use of mineral diesel. This coupled with the continuing upward trend in oil prices provide favourable conditions for the manufacture and sale of biodiesel in Australia over the longer term. The directors are eager to maintain the Company as the pre-eminent supplier of biodiesel in the region and be well placed to play a leading role in the re-emergence of biodiesel as conditions improve.

## Rounding of Amounts

The Company is of a kind referred to in ASIC Order 98/100 dated 10 July 1988 and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

## 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 19.

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

**Rob Scott**
**Chairman**

Dated at Perth on this the 29th day of February, 2008

**AUSTRALIAN RENEWABLE FUELS LIMITED**
**AND CONTROLLED ENTITIES**
**ABN 66 096 782 188**

# CONSOLIDATED INCOME STATEMENT

## FOR THE HALF YEAR ENDED 31 DECEMBER 2007

| | Notes | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|---|
| | | $'000 | $'000 |
| **Revenue from continuing operations** | | **2,958** | 4,076 |
| Profit on disposal of non-current assets | | **26** | - |
| Interest income | | **74** | 105 |
| Other income | | **278** | 309 |
| Raw materials and consumables | | **(3,321)** | (4,293) |
| Employee expenses | | **(1,672)** | (2,846) |
| Administration and marketing | | **(1,738)** | (534) |
| Consulting fees | | **(281)** | (365) |
| Finance costs | | **(174)** | (63) |
| Depreciation and amortisation | | **(1,021)** | (1,388) |
| Impairment charge | 3 | **(44,451)** | - |
| Commissioning costs | | **-** | (1,462) |
| Other expenses from ordinary operations | | **(1,220)** | (1,176) |
| **Loss before income tax** | | **(50,542)** | (7,637) |
| Income tax benefit/(expense) | | **(7,750)** | 2,493 |
| **Loss after income tax** | | **(58,292)** | (5,144) |
| Net loss attributable to minority interest | | **7,354** | - |
| **Net loss attributable to members of Australian Renewable Fuels Limited** | | **(50,938)** | (5,144) |

| | Notes | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|---|
| **Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the company** | | | |
| Basic loss per share (cents per share) | 4 | **(29.58)** | (4.14) |
| Diluted loss per share (cents per share) | 4 | **(29.58)** | (4.07) |

## AUSTRALIAN RENEWABLE FUELS LIMITED
## AND CONTROLLED ENTITIES
## ABN 66 096 782 188

## CONSOLIDATED BALANCE SHEET
### AS AT 31 DECEMBER 2007

| | Notes | 31 Dec 2007<br>$'000 | 30 June 2007<br>$'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | **452** | 6,081 |
| Trade and other receivables | | **43** | 2,254 |
| Other assets | | **573** | - |
| Inventories | | **2,997** | 4,231 |
| **Total current assets** | | **4,065** | 12,566 |
| **Non-current assets** | | | |
| Property, plant & equipment | 6 | **10,257** | 35,800 |
| Deferred tax assets | | **-** | 7,750 |
| Intangible assets | 7 | **-** | 18,182 |
| **Total non-current assets** | | **10,257** | 61,732 |
| **Total assets** | | **14,322** | 74,298 |
| **Current liabilities** | | | |
| Trade and other payables | | **780** | 3,766 |
| Borrowings | 8 | **1,914** | 1,230 |
| **Total current liabilities** | | **2,694** | 4,996 |
| **Non-current liabilities** | | | |
| Payables | | **99** | 84 |
| Borrowings | 8 | **400** | 400 |
| Deferred tax liability | | **-** | 2 |
| **Total non-current liabilities** | | **499** | 486 |
| **Total liabilities** | | **3,193** | 5,482 |
| **Net Assets** | | **11,129** | 68,816 |
| **Equity** | | | |
| Contributed equity | 9 | **99,665** | 99,664 |
| Reserves | | **120** | 953 |
| Accumulated losses | | **(88,656)** | (37,718) |
| | | **11,129** | 62,899 |
| Minority shareholder interest | | **-** | 5,917 |
| **Total Equity** | | **11,129** | 68,816 |

## AUSTRALIAN RENEWABLE FUELS LIMITED AND CONTROLLED ENTITIES ABN 66 096 782 188

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

| Consolidated Entity | Notes | Contributed Equity | Employee Share Option Reserve | Currency Translation Reserve | Retained Earnings | Minority Interest | Total Equity |
|---|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 July 2006** | | **83,779** | **595** | **-** | **(4,152)** | **-** | **80,222** |
| Net loss for the half year | | - | - | - | (5,144) | - | (5,144) |
| **Total recognised income and expense for the period** | | **-** | **-** | **-** | **(5,144)** | **-** | **(5,144)** |
| Net recovery of share issue expenses | | 121 | - | - | - | - | 121 |
| Employee share option expense | | - | 213 | - | - | - | 213 |
| Transfer – expired share options expense | | - | (35) | - | 35 | - | - |
| Acquisition of minority interest | | - | - | - | - | 3,015 | 3,015 |
| | | 121 | 178 | - | 35 | 3,015 | 3,349 |
| **Balance at 31 December 2006** | | **83,900** | **773** | **-** | **(9,261)** | **3,015** | **78,427** |
| **Balance at 1 July 2007** | | **99,664** | **1,096** | **(143)** | **(37,718)** | **5,917** | **68,816** |
| Net loss for the year | | - | - | - | (50,938) | (7,354) | (58,292) |
| **Total recognised income and expense for the period** | | **-** | **-** | **-** | **(50,938)** | **(7,354)** | **(58,292)** |
| Contributions of equity, net of transaction costs | 9 | 1 | - | - | - | - | 1 |
| Recognition in income of cancelled share options | | - | (833) | - | - | - | (833) |
| Contribution of equity by minority interest | | - | - | - | - | 1,437 | 1,437 |
| | | 1 | (833) | - | - | 1,437 | 605 |
| **Balance at 31 December 2007** | 9 | **99,665** | **263** | **(143)** | **(88,656)** | **-** | **11,129** |

**AUSTRALIAN RENEWABLE FUELS LIMITED**
**AND CONTROLLED ENTITIES**
**ABN 66 096 782 188**

# CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2007

| | 31 Dec 2007 $'000 | 31 Dec 2006 $'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash receipts in the course of operations | **4,634** | 2,200 |
| Cash payments in the course of operations | **(10,021)** | (10,778) |
| Interest received | **74** | 104 |
| Borrowing costs | **(71)** | (63) |
| **Net cash used in operating activities** | **(5,384)** | (8,537) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Payments for plant and equipment | **(2,170)** | (2,938) |
| Payment for intellectual property / patent rights | **-** | (5,846) |
| Payments for group expansion | **(324)** | (782) |
| GST recovery | **-** | 670 |
| **Net cash used in investing activities** | **(2,494)** | (8,896) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issue of shares | **1,499** | (13) |
| Proceeds of sale of non-current assets | **36** | - |
| Proceeds of shareholder loans | **-** | 3,905 |
| Other – Grants | **-** | 53 |
| **Net cash provided by financing activities** | **1,535** | 3,945 |
| **Net increase/(decrease) in cash held** | **(6,343)** | (13,488) |
| Cash at the beginning of the financial period | **4,881** | 10,023 |
| **Cash at the end of the financial period** | **(1,462)** | (3,465) |

## 1. BASIS OF PREPARATION OF HALF-YEAR FINANCIAL STATEMENTS

This general purpose financial report for the interim half-year reporting period ended 31 December 2007 has been prepared in accordance with Australian Accounting Standard 134 "Interim Financial Reporting" and the Corporations Act 2001.

This interim report does not include all the notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by Australian Renewable Fuels Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in this interim financial report as compared with the most recent annual financial report.

## 2. GOING CONCERN

The consolidated entity incurred a loss after tax for the half year of $50.94 M.

At 31 December 2007 the consolidated entity had a working capital surplus of $1.37 M.

Based on the expectation of the company raising further working capital through the issue of shares, sale of surplus assets or achieving profitable operations, the directors consider it appropriate that the financial report be prepared on a going concern basis.

## 3. LOSS FOR THE HALF-YEAR

| | Consolidated | |
|---|---|---|
| | **2007** | 2006 |
| | **$'000** | $'000 |
| Loss for the half-year includes the following items that are unusual because of their nature, size or incidence: | | |
| Impairment of plant and equipment | 26,354 | - |
| Impairment of intangibles | 18,097 | - |
| Total impairment charge (a) | 44,451 | - |
| Reversal of previously provided income tax benefits (b) | 7,750 | - |
| Expense arising from issue of share options | - | 213 |

(a) The impairment charge on plant and equipment arises due to the Company placing its Australian plants in care and maintenance. As the plants are not generating cashflows, the company has taken a conservative approach and written the value of those plants down to a nominal value. The impairment of intangibles arises due to the Company having made a full impairment in the carrying value of its investment in the U.S. operations in view of the fact at year end financing for the US operations had not been achieved.

(b) The $7.75 million balance on the Deferred Tax Asset account at 30 June 2007 was written back during the half year to 31 December 2007. This reversal occurred following the decision of the Board to place both the Group's biodiesel plants on a care and maintenance basis. In these circumstances there is doubt whether the income tax benefits will be realised.

## 4. EARNINGS PER SHARE

| | 2007 No | 2006 No |
|---|---|---|
| Weighted average number of ordinary shares used in the calculation of: | | |
| Basic earnings per share | 172,218,926 | 124,200,001 |
| Diluted earnings per share | 172,218,926 | 126,455,001 |

## 5. SEGMENT INFORMATION

**Primary reporting format – Geographical**

I. The Group's primary segment reporting format is geographical.

II. The geographical segments are determined based on the location of the Group's assets.

III. The three active segments of the business up until 31 December, 2007 are the biodiesel plants at Largs Bay, South Australia and Picton, Western Australia and Corporate Head Office in Perth, Western Australia.

IV. The United States based business has its head office in Dallas, Texas. At 31 December, 2007 the US segment of the business had not yet generated income. The primary activities of the US operation during the 6 month period under review were the conduct of a detailed feasibility study, biodiesel plant design and capital raising initiatives.

V. During the half year to 31 December 2007, American Renewable Fuels Inc incorporated a subsidiary, American Renewable Fuels LLC. (ARF Inc holding in ARF LLC 92.1%). At 31 December 2007 ARF LLC was indebted to ARF Inc in the amount of US$369,461.

The following table presents certain revenue and expenditure information regarding geographical segments for the half year ended 31 December 2007.

**31 December 2007**

| | United States | South Australia (Largs Bay) | Western Australia (Picton) | Western Australia (Corporate) | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Revenue** | | | | | |
| Sales to external customers | - | 742 | 2,216 | - | 2,958 |
| Other revenues | - | 1 | 2 | 98 | 101 |
| Total segment revenue | - | 743 | 2,218 | 98 | 3,059 |
| Segment result (Pre-tax) | (8,413) | (12,922) | (17,839) | (11,368) | (50,542) |

## 5. SEGMENT INFORMATION (Cont)

**31 December 2006**

| | United States | South Australia (Largs Bay) | Western Australia (Picton) | Western Australia (Corporate) | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Revenue** | | | | | |
| Sales to external customers | - | 3,885 | 190 | - | 4,075 |
| Other revenues | - | 2 | 2 | 410 | 414 |
| Total segment revenue | - | 3,887 | 192 | 410 | 4,489 |
| Segment result (Pre-tax) | - | (2,579) | (2,873) | (2,185) | (7,637) |

## 6. PROPERTY PLANT AND EQUIPMENT

| Consolidated Entity | Freehold land | Plant and equipment | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Year ended 30 June 2007** | | | |
| As at 1 July 2006 | | | |
| Net of accumulated depreciation and impairment | 685 | 44,325 | 45,010 |
| Additions | (6) | 4,349 | 4,344 |
| Offset of Biofuels Capital Grant | - | (6,789) | (6,789) |
| Depreciation charge for the year | - | (2,397) | (2,397) |
| Impairment of assets | - | (4,367) | (4,367) |
| Net of accumulated depreciation and impairment | 679 | 35,121 | 35,800 |
| **At 30 June 2007** | | | |
| Cost or fair value | 679 | 49,090 | 49,769 |
| Offset of Biofuels Capital Grant | - | (6,789) | (6,789) |
| Accumulated depreciation and impairment | - | (7,180) | (7,180) |
| Net carrying amount | 679 | 35,121 | 35,800 |
| **Half year ended 31 December 2007** | | | |
| As at 1 July 2007 | | | |
| Net of accumulated depreciation and impairment | 679 | 35,121 | 35,800 |
| Additions | | 1,832 | 1,832 |
| Depreciation charge for the year | - | (1,021) | (1,021) |
| Impairment of assets | - | (26,354) | (26,354) |
| Net of accumulated depreciation and impairment | 679 | 9,578 | 10,257 |
| **At 31 December 2007** | | | |
| Cost or fair value | 679 | 50,922 | 51,601 |
| Offset of Biofuels Capital Grant | - | (6,789) | (6,789) |
| Accumulated depreciation and impairment | - | (34,555) | (34,555) |
| Net carrying amount | 679 | 9,578 | 10,257 |

## 7. INTANGIBLE ASSETS

| Consolidated Entity | Capitalised Development Costs $'000 | Biodiesel Royalty Buy Back $'000 | Patents and Other Rights $'000 | Total $'000 |
|---|---|---|---|---|
| **At 30 June 2007** | | | | |
| Opening net carrying amount (at 1 July 2006) | 3,243 | 22,286 | 6,470 | 31,999 |
| Additions/(transfers) | - | - | 11,894 | 11,894 |
| Amortisation charge and Impairment | (3,243) | (22,286) | (182) | (25,711) |
| Net carrying amount | - | - | 18,182 | 18,182 |
| **At 30 June 2007** | | | | |
| Cost (gross carrying amount) | 3,283 | 22,286 | 18,364 | 43,933 |
| Accumulated amortisation and impairment | (3,283) | (22,286) | (182) | (25,751) |
| Net carrying amount | - | - | 18,182 | 18,182 |
| **Half year ended 31 December 2007** | | | | |
| Opening net carrying amount | - | - | 18,182 | 18,182 |
| Additions/(transfers) | 842 | - | (927) | (85) |
| Amortisation charge and Impairment | (842) | - | (17,255) | (18,097) |
| Net carrying amount | - | - | - | - |
| **At 31 December 2007** | | | | |
| Cost (gross carrying amount) | 4,125 | 22,286 | 17,437 | 43,848 |
| Accumulated amortisation & impairment | (4,125) | (22,286) | (17,437) | (43,848) |
| Net carrying amount | - | - | - | - |

## 8. BORROWINGS

| | 31 Dec 2007 $'000 | 30 June 2007 $'000 |
|---|---|---|
| **Current** | | |
| Bank loans and advances | 1,914 | 1,230 |
| **Non Current** | | |
| Non interest bearing liabilities (a) | 400 | 400 |

a) The non current borrowings relate to a secured loan from the Western Australian Government that is convertible to a grant upon meeting certain milestones. The security for the loan is a registered first mortgage over the Group's land at Picton, Western Australia.

## 9. CONTRIBUTED EQUITY

| | 31/12/07 *No .Shares* | 30/6/07 *No. Shares* | 31/12/07 $'000 | 30/6/07 $'000 |
|---|---|---|---|---|
| **Ordinary Shares** | | | | |
| Fully paid | 172,218,926 | 172,218,287 | 99,665 | 99,664 |
| **Movement during the half year** | | | | |
| Opening Balance | 172,218,287 | 124,200,001 | 99,664 | 83,779 |
| Transfer from Employee Equity Benefit Reserve | - | - | - | 35 |
| Allotments | 639 | 48,018,286 | 1 | 16,807 |
| Transaction costs on share issues | - | - | - | (957) |
| | 172,218,926 | 172,218,287 | 99,665 | 99,664 |

## 10. 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:

i) 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,

ii) 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.

## 10. CONTINGENT LIABILITIES (Cont)

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.

## 11. EVENTS SUBSEQUENT TO BALANCE DATE

- The Group's two biodiesel plants remain on a care and maintenance basis. The plants will be re-opened for production when market conditions for the production and sale of biodiesel in Australia become viable. The re-opening of the plants will require the raising of additional working capital.

- The Company announced its intention to undertake a fresh capital raising in the coming months that will enable it to restart at least one of its plants on improved terms.

## 12. FINANCIAL RISK MANAGEMENT

The rapidly changing environment in Australia for biodiesel producers during the six months to December 2007 has necessitated major changes to the manner in which ARF's business has been conducted. Broadly, the three major adverse conditions facing biodiesel producers can be summarised as;

- The cost of feedstock (primarily tallow and canola) has increased by over 50% in the past six months. Notwithstanding the higher oil prices that influence the sale price of biodiesel, margins available to biodiesel producers have significantly diminished;

- Changes in Federal government policy in 2006 relating to fuel excise had a dramatic impact on customers being able to use high blends of biodiesel and diesel above B20;

- The fallout from the sub-prime mortgage environment has proved challenging for ARF's U.S. operations securing funding for its first plant.

## 13. ESTIMATES

The preparation of interim half year financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

## 13. ESTIMATES (Cont)

Except for as described below, in preparing this consolidated half year report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial report as at and for the year ended 30 June 2007.

During the six months ended 31 December 2007, management reassessed its estimates in respect of:

- The recoverable amount of certain plant and equipment (note 3)
- The recoverable amount of certain intangible assets (note3)

## DIRECTORS'S DECLARATION

The directors of the company declare that:

1. The financial statements, comprising the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity and accompanying notes, are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date.

2. 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.

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

**Robert N Scott**
**Non-Executive Chairman**

Dated at Perth this 29th day of February 2008.

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

29 February 2008

The Board of Directors
Australian Renewable Fuels Limited
Suite 3, 18 Angove St
NORTH PERTH WA 6006

Dear Sirs

**DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF AUSTRALIAN RENEWABLE FUELS LIMITED**

As lead auditor of Australian Renewable Fuels Limited for the half-year year ended 31 December 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.

Glyn O'Brien

**Glyn O'Brien**
Director

BDO Kendalls

**BDO Kendalls Audit & Assurance (WA) Pty Ltd**
Signed at Perth, this 29th day of February 2008

BDO Kendalls

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

We have reviewed the accompanying half-year financial report of Australian Renewable Fuels Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year in order for the disclosing entity to lodge the half-year financial report with the Australian Securities and Investments Commission.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year 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.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Renewable Fuels Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's review report was made.

*Basis for Qualified Conclusion*

On November 2, 2007, Australian Renewable Fuels Limited announced to the market that it was immediately placing its Australian plants in to care and maintenance due to the production of biodiesel becoming uneconomical. At the date of this report, the directors are assessing options in relation to the future use and or sale of the plants and this process has not been finalised.

Accordingly, the directors have been unable to reliably assess the future cash flows of the company from the sale and/ or operation of the plants.

The directors have resolved to carry the plants at an impaired value of $8 million at 31 December 2007.

Due to the uncertainties of the future cash flows of the plants, we have been unable to assess whether the plants are carried at the correct values and whether impairment gains or losses have been correctly included within the half yearly result.

*Qualified Conclusion*

Based on our review, which is not an audit, with the exception of the matter described in the preceding paragraph, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Renewable Fuels Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the disclosing entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

*Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our opinion, we draw attention to Note 2 in the financial report which indicates that the company incurred a net loss of $50.94 million during the period ended 31 December 2007. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

*Inherent Uncertainty Regarding Contingent Liability*

Without qualifying our opinion, we draw attention to Note 10 in the financial report which indicates that the company may be required to repay a grant awarded to it by the Federal Government of $7.15 million if certain conditions within the funding deed are not met. Due to the companies plants being placed in care and maintenance there are uncertainties surrounding the companies' ability to meet these conditions. The company has not received demand for repayment and has not recognized the amount as a liability as the ultimate outcome of this matter cannot be determined.

**BDO Kendalls Audit & Assurance (WA) Pty Ltd**

BDO Kendalls
Glyn O'Brien

**Glyn O'Brien**
Director

Perth, Western Australia
Dated this 29th day of February 2008

# Appendix 4D

## Half year report

## 1. Company details

Name of entity

| |
|---|
| **Australian Renewable Fuels Limited** |

| ABN or equivalent company reference | Half year ended ('current period') | Half year ended ('previous period') |
|---|---|---|
| 66 096 782 188 | 31 December 2007 | 31 December 2006 |

## 2. Results for announcement to the market

$A'000's

| | | | | | |
|---|---|---|---|---|---|
| 2.1 Revenues from ordinary activities | Down | 27.42% | to | 2,958 |
| 2.2 Profit (loss) from ordinary activities after tax attributable to members | Loss Increase | 890.24% | to | 50,938 |
| 2.3 Net profit (loss) for the period attributable to members | Loss Increase | 890.24% | to | 50,938 |

| 2.4 **Dividends** | Amount per security | Franked amount per security |
|---|---|---|
| Interim dividend declared | Nil ¢ | Nil ¢ |

2.5 +Record date for determining entitlements to the dividend. **Not applicable**

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

## 3. NTA backing

| | Current period | Previous corresponding period |
|---|---|---|
| Net tangible asset backing per ordinary security | 6.46 cents per share | 19 cents per share |

## 4.1 Control gained over entities

| | |
|---|---|
| Name of entity (or group of entities) | American Renewable Fuels LLC |
| Date control gained | July 2007 |

| | |
|---|---|
| Contribution of such entities to the reporting entity's profit/ (loss) from ordinary activities during the period (where material). | ($614,346) |
| Profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period. | $ nil |

## 4.2 Loss of control over entities - Not Applicable

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

## 5. Dividends

## Individual dividends per security

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

m. L. Ger

Sign here: Chief Financial Officer

Date: 29 February 2008

Print name: Max Louis Ger

*Rule 4.7B*

# Appendix 4C

## Quarterly report
## for entities admitted
## on the basis of commitments

Name of entity

**Australian Renewable Fuels Limited**

ABN

**66 096 782 188**

Month ended

**31 January 2008**

## Consolidated statement of cash flows

| | Cash flows related to operating activities | Current month $A'000 | Year to date $A'000 |
|---|---|---|---|
| 1.1 | Receipts from customers | 416 | 5,050 |
| 1.2 | Payments for (a) staff costs - (Including redundancy payments) | (101) | (2,860) |
| | (b) advertising and promotion | - | (6) |
| | (c) research and development | - | (144) |
| | (d) other operating costs | (278) | (7,390) |
| 1.3 | Dividends received | - | - |
| 1.4 | Interest received | - | 74 |
| 1.5 | Interest and other costs of finance paid | (11) | (82) |
| 1.6 | Income taxes paid | - | - |
| | **Net operating cash flows** | **26** | **(5,358)** |

| | | Current month $A'000 | Year to date $A'000 |
|---|---|---|---|
| 1.7 | Net operating cash flows (brought forward) | **26** | **(5,358)** |
| | **Cash flows related to investing activities** | | |
| 1.8 | Payment for acquisition of: | | |
| | (a) businesses (item 5) | - | - |
| | (b) equity investments | - | - |
| | (c) group expansion in NAFTA zone | - | (324) |
| | (d) intellectual property | - | - |
| | (e) physical non-current assets (including USA) | (36) | (2,206) |
| 1.9 | Proceeds from disposal of: | | |
| | (a) businesses (item 5) | - | - |
| | (b) equity investments | - | - |
| | (c) intellectual property | - | - |
| | (d) physical non-current assets | - | - |
| | (e) other non-current assets | - | 36 |
| 1.10 | Loans to other entities | - | - |
| 1.11 | Loans repaid by other entities | - | - |
| | **Net investing cash flows** | **(36)** | **(2,494)** |
| **1.12** | **Total operating and investing cash flows** | **(10)** | **(7,852)** |
| | **Cash flows related to financing activities** | | |
| 1.13 | Net proceeds from issues of shares, options, etc. | - | 1,499 |
| 1.14 | Dividends paid | - | - |
| 1.15 | Grants received | - | - |
| | **Net financing cash flows** | **-** | **1,499** |
| | **Net increase (decrease) in cash held** | **(10)** | **(6,353)** |
| **1.16** | **Cash at beginning of quarter/year** | **(1,462)** | **4,881** |
| 1.17 | Exchange rate adjustments | - | - |
| **1.18** | **Cash at end of quarter/year** | **(1,472)** | **(1,472)** |

## Payments to directors of the entity and associates of the directors
## Payments to related entities of the entity and associates of the related entities

| | | Current month $A'000 |
|---|---|---|
| 1.19 | Aggregate amount of payments to the parties included in item 1.2 | - |
| 1.20 | Aggregate amount of loans to the parties included in item 1.11 | - |
| 1.21 | Explanation necessary for an understanding of the transactions | N/A |

## Non-cash financing and investing activities

| | | |
|---|---|---|
| 2.1 | N/A | |

| | |
|---|---|
| 2.2 | N/A |
| | |

## Financing facilities available

*Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).*

| | | Amount available $A'000 | Amount used $A'000 |
|---|---|---|---|
| 3.1 | Credit standby arrangements | 1,800 | 1,776 |
| 3.2 | Bank guarantees provided to third parties | 335 | 335 |
| | **Total financing facilities available at end of quarter** | **2,135** | **2,111** |

## Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | Current month $A'000 | Previous month $A'000 |
|---|---|---|
| 4.1 Cash on hand and at bank | 304 | 583 |
| 4.2 Deposits at call | - | - |
| 4.3 Bank overdraft | (676) | (845) |
| 4.4 Other Bank Facilities | (1,100) | (1,200) |
| **Total: cash at end of month/quarter** | **(1,472)** | **(1,462)** |

## Acquisitions and disposals of business entities

| | | **Acquisitions** *(Item 1.9(a))* | **Disposals** *(Item 1.10(a))* |
|---|---|---|---|
| 5.1 | Name of entity | Not applicable | Not applicable |
| 5.2 | Place of incorporation or registration | | |
| 5.3 | Consideration for acquisition or disposal | | |
| 5.4 | Total net assets | | |
| 5.5 | Nature of business | | |

## Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.

2 This statement does give a true and fair view of the matters disclosed.

Sign here ............................................ Date: 28 February 2008
Chief Financial Officer

Print name: Max Louis Ger

## Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.

   - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
   - 9.2 - itemised disclosure relating to acquisitions
   - 9.4 - itemised disclosure relating to disposals
   - 12.1(a) - policy for classification of cash items
   - 12.3 - disclosure of restrictions on use of cash
   - 13.1 - comparative information

3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.