



# **Australian Renewable Fuels Limited**

ABN 66 096 782 188

**Annual Financial Report**

**30 June 2009**

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## CORPORATE INFORMATION

**ABN 12 345 678 321**

### Directors

|             |                                                  |
|-------------|--------------------------------------------------|
| R N Scott   | Chairman                                         |
| T Engelsman | Managing Director (appointed 2 April 2009)       |
| G Denison   | Non Executive Director (resigned 28 August 2009) |
| J Playoust  | Non Executive Director (appointed 2 April 2009)  |
| C Gullotta  | Non Executive Director (appointed 31 July 2009)  |
| G F Towner  | Non Executive Director (resigned 14 April 2009)  |

### Company secretary

T Oosterhof (resigned 31 July 2009)  
A Davey (appointed 31 July 2009)

### Registered office

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North Perth WA 6006  
Ph (08) 9227 7688  
Fax (08) 9227 0101  
Website [www.arfuels.com.au](http://www.arfuels.com.au)

### Postal Address

PO Box 119  
North Perth WA 6906

### Share register

Computershare Investor Services Pty Limited  
GPO Box D182  
Perth WA 6840

### Solicitors

Norton Gledhill  
Level 23, 459 Collins Street  
Melbourne VIC 3000

### Bankers

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

### Auditors

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

## **LETTER FROM THE CHAIRMAN AND MANAGING DIRECTOR**

Dear Shareholders

As you will be aware, the last year has been most difficult for the overall business community, with the well documented global financial problems simply exacerbating some of the market sector issues. As such, Australian Renewable Fuels Limited had another challenging year, whilst at the same time taking the necessary steps to ensure that the long term position of the company could be improved.

Since the time of the initial investments, the company has suffered from some very clear structural problems with regard to the biodiesel sector, not the least of which has been the constant dramatic changes in the cost of feed stock. The company designed and built the original plants on the assumption of certain feed stock pricing for base line tallow, with pricing being in the \$500 to \$600 per tonne range. The pricing for the product has been far in excess of those prices primarily due to the large export potential for the high grade Australian tallow. In effect, other markets created conditions where the local tallow markets became more focussed on export opportunities.

In parallel, the price of oil on the world market saw massive fluctuations, from a high of US\$140 per barrel down to a low of US\$40 per barrel. This clearly impacted on the price of mineral diesel, and hence the pricing of biodiesel since Australian distributors tend to drive the pricing models from the exchange rate based on Terminal Gate Price ("TGP") of mineral diesel in the major cities.

With the above situation seriously impacting the company, there was no alternative but to take all necessary steps to minimise the aggregate effect. This was driven by the need to have a reduction in overall cash usage of the company, even though minimal margins were still being contributed through the period. However, the overall business could not reach any level of serious production due to the cash constraints at the time together with the high cost of feed stock.

Major effort by the company management was focussed on the overall cost base of the business, and early in the year, action was taken to further reduce costs with the intention being to reach a minimal cash usage rate as soon as possible. Further changes and adjustments were made to this model throughout the year, with other substantial changes occurring at the time of refinancing the company.

During the latter part of 2008, the company made the decision to divest itself of the US operations to a private but related group, in exchange for an agreement with regard to the overall market. The agreement effectively allows an exclusive arrangement for the buyer in four of the US states, but Australian Renewable Fuels Limited retains access to the rest of the market. The buyer also has the right to the Energea licences, but the company is paid, on a royalty basis, for such use. The benefits of the royalty are difficult to estimate given the current status of the various projects being considered. However, with the very substantial focus by the current US Administration on biodiesel markets, we expect that there will be positive benefits from the licensing arrangement.

Even with the elimination of the large US cost base, the company was still in need of further working capital and expansion funds, and for that reason, the Board approved further fund raising based upon the sale of the non-essential Picton land as well as the implementation of a fully underwritten Rights Issue. These steps were taken to generate the necessary funds for the overall repositioning of the business and allow the company to be ready for expected growth in the future. A Rights Issue was completed shortly after the end of the financial year and the settlement of the sale of the Picton land has now been completed as at the date of this report.

Given the current condition of the financial markets and the risks associated with capital raising, it was indeed pleasing that the company was able to secure a fully under-written Rights Issue with major support from Wasabi Energy Limited (the lead underwriter) and the Australian Enterprise Holdings Pty Ltd. The participation of the existing shareholder base was also a positive development, since it confirmed a long term belief in the sector is still evident in the investment community.

As a result, a series of changes were made to the Board of Directors of the company as follows:

- Mr Geoffrey Towner resigned from the Board on 14 April 2009 after having served since May 2001
- Mr Tom Engelsman joined the Board in April 2009 and then in May assumed the role of Managing Director
- Mr Charles Gullotta joined the Board as a non-executive director
- Mr Julien Playoust joined the Board as a non-executive director
- Mr Max Ger resigned from the role of CEO taking on a private role in industry

## LETTER FROM THE CHAIRMAN AND MANAGING DIRECTOR (continued)

We thank Geoffrey and Max for their efforts with the company and wish them the very best in their new endeavours.

After the completion of the Rights Issue and Picton land sale, the company was able to address some of the strategic issues facing the business with a specific focus on feed stock planning and the direct impact of the feed stock prices on the results of the business.

After a detailed review of the dynamics of the market and the investments within the plants, the Board is confident that the foundations are in place for the company to begin to generate positive results. As a first step to the confirmation of this policy, the business has been focussed on a model more aligned with market conditions and a "spot production" basis to suit the still developing overall market demand. As a result of this refocussing and the limited production during the period, certain impairments had to be made to the asset base, such that the accounts properly reflect the carrying value of the company.

Even with this limited production base the company was successful with regard to many business segments, leveraging the interest in reduced carbon footprint fuel. Sales were attained in many industries, not the least of which encompassed the mining sector, a major user of mineral diesel. In addition, there has been a great deal of interest in the use of "clean fuel" in sectors such as renewable power, desalination as well as other industries where a mineral based chemical can be replaced with a lower carbon footprint biodiesel.

Of substantial interest has been the Federal Government's ruling in March 2009 that the B5 (5% biodiesel content fuel) no longer needs any form of labelling and hence is effectively a market driven condition. This was further supported by the New South Wales 2011 mandate for B2 minimal content, thereby being the first state in Australia to take such a position. Overall, a focus on the Energy debate coupled with the clear political agenda with regard to the Carbon Pollution Reduction Scheme ("CPRS") and the Emissions Trading Scheme ("ETS") has left the company with a clear position in the biodiesel sector.

In addition, the ETS will accelerate the concept of "carbon trading" with expectations that the cost of such carbon certificates could well mirror the European price structure and initial estimates in Australia being at the \$25 per tonne carbon replacement for the initial certificates. Biodiesel is a clear reducer of Greenhouse Gas, with B100 having a substantially smaller carbon foot print than comparable mineral diesel.

This is an important development given that during the period there were substantial changes within the industry to a point where the company is now the largest capacity biodiesel producer in Australia, with strong positions in both Western Australia and South Australia given the 45 million litre capacity at both Picton and Largs Bay.

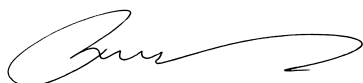
With the resulting Balance Sheet, as well as the solid strategic investor base, we feel that the company is now better positioned to take advantage of the expected financial recovery. There is no doubt that many risks still exist with regard to feed stock and therefore the overall returns therefore available from the business, but the Board is focused on such long term strategic issues and feels these can be addressed with proper planning and prudent strategic purchasing and alliances.

During this period of change, there has been an impact on our employees and other related third parties. The support the company has received from them has been very positive and has helped the position of the company for the future. Through this period of difficult decisions, both the Board and management want to thank all involved in the business for their assistance.

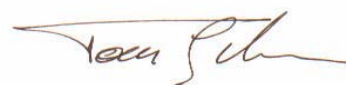
The company has been through a series of most difficult periods and has had to balance many elements, but in so doing has been able to retain the basic potential of well-built operating facilities where 100% compliant biodiesel is being produced for the local industry. The wide operating envelope of these plants allows for the strategic consideration of additional lower cost feed stocks, based on various oil seeds and thereby expanding the overall market opportunity for the end product.

It is the successful implementation of this strategy which will allow for an improved return for the business in the future and this value creation is the goal of the Board and management.

Thank you for your continued support.



Robert N Scott  
Chairman



Tom Engelsman  
Managing Director



## DIRECTORS' REPORT

Your directors submit the annual financial report of the consolidated entity for the financial year ended 30 June 2009. In order to comply with the provisions of the Corporations Act, the directors report as follows:

### Directors

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

### Names, qualifications, experience and special responsibilities

#### Robert N Scott FCA, MAICD (Chairman)

Mr Scott was appointed non-executive Chairman of the Group on 26 November 2007. He has over 35 years experience as a Chartered Accountant and adviser on corporate services and taxation in Australia. Retiring as an international partner of Arthur Anderson 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 Australia and a Fellow of the Taxation Institute of Australia.

Mr Scott is a member of the Group's Audit Committee.

In the 3 years immediately before the end of the financial year, Mr Scott also served as a director of the following listed companies:

- Bio-MD Limited \*
- Amadeus Energy Limited\*
- Homeloans Limited\*
- Naptune Marine Services Limited\*
- CGA Mining Limited\* (appointed January 2009)
- New Guinea Energy Limited (resigned May 2009)
- ETW Limited (resigned August 2007)

\* denotes current directorships

#### Tom Engelsman (Managing Director)

(appointed 2 April 2009)

Mr Engelsman was appointed Managing Director of the Group on 2 April 2009. He is a Bachelor of Aeronautical Engineering RMIT and an MBA from Sloan School Management MIT Boston (Sloan Fellow). He has over 30 years experience in global industry in particular within the oil and gas industry, power, pulp and paper industry and the renewable energy industry. He has been the CEO of several listed companies.

In the 3 years immediately before the end of the financial year, Mr Engelsman did not hold any directorships in any other listed companies.

#### Glyn Denison BE (Non-Executive Director)

(resigned 28 August 2009)

Mr Denison 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 for the Hong Kong Smart Card Project which today is the largest card scheme in the world. He has served as the Managing Director of ERG Electronics Ltd, Business Planning Manager for Bunnings Forest Products Ltd and was Regional Manager for Willing & Partners – PNG for a period in the 1980's. Appointed as 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.

In the 3 years immediately before the end of the financial year, Mr Denison also served as a director of the following listed companies:

- OBJ Limited\*
- MEDEC Ltd (resigned 2005)

\* denotes current directorship



## DIRECTORS' REPORT (continued)

### Julien Playoust BSc, (Non-Executive Director)

(appointed 2 April 2009)

Mr Playoust was appointed as non-executive director on 2 April 2009. He is the managing director of AEH Group, a Sydney based investment company. His professional career includes management consulting with Andersen Consulting and Accenture. He has experience in mergers and acquisitions, strategy, change, technology and supply-chain programs across a number of sectors. Mr Playoust is a member of the Australian Institute of Company Directors, Australian Institute of Management, Royal Australian Institute of Architects and The Executive Connection.

Mr Playoust holds a MBA from AGSM, Bachelor of Architecture First Class Honours, Bachelor of Science from Sydney University and Company Director Course Diploma from the AICD.

Mr Playoust is a member of the Group's Remuneration Committee

In the 3 years immediately before the end of the financial year, Mr Playoust also served as a director of the following listed company:

- Tatts Group Limited\*

\* denotes current directorship

### Charles Gullotta CPA (Non-Executive Director)

(appointed 31 July 2009)

Mr Gullotta was appointed as a non-executive director of the Group on 31 July 2009. Commencing his career in investment banking at Hambros Australia Limited in 1984, Mr Gullotta brings 25 years experience of broadly based commercial dealings across a number of industries. He is a Senior Fellow of the Financial Services Institute of Australasia and a CPA. He has been an active investor in a range of public and private companies. He is a director of Winchester Associates Pty Ltd, a licensed investment advisor he co-founded.

Mr Gullotta is the Chairman of the Group's Audit Committee

In the 3 years immediately before the end of the financial year, Mr Gullotta also served as a director of the following listed company:

- Somnosed Limited (resigned 2006)

### Geoffrey F Towner MAICD (Non-Executive Director)

(resigned 14 April 2009)

Mr Towner was appointed a director of the company in May 2001 and resigned as a director of the company on the 14 April 2009.

In the 3 years immediately before the end of the financial year, Mr Towner also served as a director of the following listed company:

- Amadeus Energy Limited\*

\* denotes current directorship

## Company Secretary

### Alwyn Davey

(appointed 31 July 2009)

Mr Davey has experience in cross border mergers, acquisitions and investments as well as formally being a member of the Executive Committee of Cambrian Mining Plc, a diversified mining group. He acts as a non-executive director for Engergy Group Plc, a UK listed company and has been company secretary of a number of UK listed companies which were predominantly part of the Cambrian Mining Plc group. Mr Davey holds an LLB degree from Waikato University in New Zealand.

### Tania T Oosterhof

(resigned 31 July 2009)

Ms Oosterhof was appointed company secretary of the company on 21 January 2008 and resigned on 31 July 2009.



## DIRECTORS' REPORT (continued)

### Interests in the shares and options of the company and related bodies corporate

The following relevant interests in shares and options of the company or a related body corporate were held by the directors as at the date of this report:

| Directors                           | Number of options over ordinary shares | Number of fully paid ordinary shares |
|-------------------------------------|----------------------------------------|--------------------------------------|
| R N Scott                           | -                                      | -                                    |
| T Engelsman                         | -                                      | -                                    |
| J Playoust                          | 42,745,039                             | 95,127,486                           |
| C Gullotta                          | 3,400,000                              | 3,400,000                            |
| G Denison (resigned 28 August 2009) | -                                      | 592,109                              |

The following share options of Australian Renewable Fuels Limited were granted to directors and to the five most highly remunerated officers of the company during or since the end of the financial year as part of their remuneration:

| Directors and officers               | Number of options granted | Number of options over ordinary shares |
|--------------------------------------|---------------------------|----------------------------------------|
| R N Scott                            | -                         | -                                      |
| T Engelsman                          | -                         | -                                      |
| J Playoust                           | -                         | -                                      |
| C Gullotta                           | -                         | -                                      |
| G Denison (resigned 28 August 2009)  | -                         | -                                      |
| M L Ger (resigned 31 July 2009)      | 500,000                   | 500,000                                |
| L J Sole                             | 500,000                   | 500,000                                |
| T Oosterhof (resigned 31 July 2009)  | 70,000                    | 70,000                                 |
| L Cianfagna (appointed 1 March 2009) | -                         | -                                      |

Details of ordinary shares issued by the company during or since the end of the financial year as a result of the exercise of an option are:

| Number of shares | Amount paid per share |
|------------------|-----------------------|
| 2,659,953        | \$0.01                |
| <u>2,659,953</u> |                       |

## DIRECTORS' REPORT (continued)

There are no unpaid amounts on the shares issued.

At the date of this report unissued ordinary shares of the company under option are:

| <i>Expiry Date</i> | <i>Exercise price</i> | <i>Number of shares</i> |
|--------------------|-----------------------|-------------------------|
| 18/10/2009         | \$0.50                | 75,000                  |
| 18/10/2009         | \$1.00                | 75,000                  |
| 18/10/2009         | \$1.50                | 75,000                  |
| 30/06/2010         | \$1.13                | 100,000                 |
| 30/06/2010         | \$1.50                | 100,000                 |
| 30/06/2010         | \$2.00                | 100,000                 |
| 13/07/2011         | \$0.01                | 222,684,921             |
| 15/06/2012         | \$0.60                | 175,000                 |
| 26/03/2013         | \$0.10                | 5,290,000               |
| 22/09/2013         | \$0.10                | 1,350,000               |
|                    |                       | <hr/>                   |
|                    |                       | 230,024,921             |
|                    |                       | <hr/>                   |

### Dividends

No dividends have been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

### Principal activities

The principal activities of the entities within the consolidated entity during the year 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.

Other than the withdrawal of the proposed Clovis, New Mexico Biodiesel project which was being undertaken by a subsidiary of American Renewable Fuels Inc, American Renewable Fuels LLC ("ARF LLC") and the disposal of its interest in its subsidiary, ARF LLC, there have been no other significant changes in the nature of those activities during the year.

### Review of operations

#### *Operating results for the year*

The consolidated loss for the Group after providing for income tax is \$8,979,709 (2008: \$53,593,443 loss).

#### *Group overview*

##### *Operations*

The 2009 financial year has been another challenging year and there is continued focus in ensuring that the company is managed at optimal levels for the corresponding levels of production and directly manage factors that are within the company's control without compromising the high quality of biodiesel produced by both the Largs Bay and Picton plants. The plants were taken out of care and maintenance during the year and production has recommenced in accordance with customer demands. The high quality of production has been measured against the level of customer satisfaction with the company not having to issue any credit notes to our customers and that trend has continued for the last three years.



## DIRECTORS' REPORT (continued)

### *Feed stocks*

Production at both plants has primarily used tallow as its main source of feed stocks during the year with some quantities of used cooking oils. In early 2009, the price of tallow began to escalate making the production of biodiesel uneconomical on a large scale. The core technology used by the plants, the Energea reactor, performs extremely well in converting tallow and lower quality feed stocks into biodiesel.

Taking advantage of the technology in place and the results of processing lower quality feed stocks, there has been a move to source alternative feed stocks to lower the production input cost and thus making it more economical to produce on a larger scale. The prices of tallow and unprocessed used oils continue to be volatile and the approximate prices at the date of this report are \$750/tonne and \$1,200/tonne respectively.

### *Marketing*

The key marketing approach undertaken during the period was to focus the sale of biodiesel to major oil companies, fuel wholesalers and retailers/distributors and into the transport industry. Changes to Fuel Tax legislation and the delay of the introduction of the Federal Government's Carbon Pollution Reduction Scheme have made it extremely difficult to successfully negotiate long term supply contracts.

### *Cost Management*

Another key focus of the Group is cost management. The Group has continued to meet its goal to significantly reduce costs especially those in relation to corporate and other overheads, operating with minimal staffing requirements without sacrificing the efficiency and quality of production.

### **Review of financial conditions**

#### *Liquidity and capital resources*

The consolidated cash flow statement illustrates that there was a decrease in cash held before allowing for exchange rate fluctuations of \$1.8m (2008: \$4.5m decrease). This reduction in the cash burn for the year is indicative of the Group's focus on cost management in relation to production and production cost effectiveness, the reduction of overheads and the continued support of our financiers and investors. The funds were expended largely in meeting the operating requirements of the company.

#### *Shares issued during the year*

In May 2009 the company issued 42,784,866 shares under subscription agreement at \$0.01 each.

#### *Capital Expenditure*

Capital expenditure has decreased from \$1.9m for the year ended 30 June 2008 to \$68,892 for the year ended 30 June 2009. The expenditure relates to minor equipment and plant additions at both the Picton and Largs Bay sites.

### **Significant changes in the state of affairs**

Other than the withdrawal of the proposed Clovis, New Mexico Biodiesel project which was being undertaken by a subsidiary of American Renewable Fuels Inc, American Renewable Fuels LLC ("ARF LLC") and the disposal of its interest in its subsidiary, ARF LLC, there have been no other significant changes in the state of affairs of the Group at the date of this report.

### **Significant events after balance date**

On 20 July 2009 the consolidated entity raised \$2,253,448 by way of issue of 225,344,874 ordinary shares following a renounceable rights issue of 2 new shares for every 3 existing shares at \$0.01 cents each together with one free attaching unlisted option exercisable any time prior to 13 July 2011 at an exercise price of \$0.01. The funds were raised for working capital requirements of the company and to facilitate the discovery of lower cost feed stocks, the exploration of uses of biodiesel in order to optimise production costs and to implement a marketing plan for the sale of biodiesel in certain markets. The rights issue was fully underwritten.

On 5 August 2009 the loan owing to Wasabi Energy Limited of \$100,000 was repaid in full out of the proceeds from the rights issue in accordance with the terms of the agreement between the companies.

On 15 September 2009 the company completed the settlement of the sale of the Picton land as announced in January 2009. The land was sold for net cash benefit of approximately \$2 million after retaining ownership interest of the land under the Picton operating facility, with the residual area being divested.



## DIRECTORS' REPORT (continued)

### Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Therefore, this information has not been presented in this report.

### Environmental legislation

#### *Greenhouse gas and energy data reporting requirements*

The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. For the first measurement period 1 July 2008 to 30 June 2009 the directors have assessed that there are no current reporting requirements, but may be required to do so in the future.

### Indemnification and insurance of Directors and Officers

The company has agreed to indemnify all the directors and officers of the company for any liabilities to another person (other than the company or related body corporate) that may arise from their position as directors or officer of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the financial year the company paid a premium in respect of a contract insuring the directors and officers of the company and its controlled entities against any liability incurred in the course of their duties to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### Remuneration report (audited)

This report outlines the remuneration arrangements in place for directors and senior management of Australian Renewable Fuels Limited (the "company") for the financial year ended 30 June 2009 and the Group. The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

The remuneration report is set out under the following headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration
- C. Service agreements
- D. Share based compensation

#### **A Principles used to determine the nature and amount of remuneration**

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievements of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward.

The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- 1. competitiveness and reasonableness
- 2. acceptability to shareholders
- 3. performance linkage/alignment of executive compensation
- 4. transparency
- 5. capital management

The Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.



## DIRECTORS' REPORT (continued)

### Remuneration report (audited) (continued)

#### A Principles used to determine the nature and amount of remuneration (continued)

##### *Alignment to shareholder interests:*

1. has economic profit as a core component of plan design
2. focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drives of value
3. attracts and retains high calibre executives

##### *Alignment to program participants' interests*

1. rewards capability and experience
2. reflects competitive reward for contribution to growth in shareholder wealth
3. provides a clear structure for earning rewards
4. provides recognition for contribution

The framework provides a mix of fixed and variable pay, and a blend of short and long term incentives. As executives gain seniority with the Group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

##### *Remuneration committee*

The Board has established a Remuneration Committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

##### *Non-executive director remuneration*

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.

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting when shareholders approved an aggregate remuneration of \$300,000 per year.

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 shareholders 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 Pay*

The executive pay and reward framework has three components; base pay and benefits, including superannuation, short term performance incentives and long term incentives through participation in the Group's Employee Share Option Plan.

The combination of these comprises an executive's total remuneration.



## DIRECTORS' REPORT (continued)

### Remuneration report (audited) (continued)

#### A Principles used to determine the nature and amount of remuneration (continued)

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executive's discretion. Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay is set to reflect the market for a comparable role and is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any executive's contracts.

#### *Fixed Remuneration*

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Committee has access to external, independent advice where necessary.

The fixed remuneration component of the 5 most highly remunerated Group and company executives is detailed in Table 2.

#### *Variable Remuneration*

The objective of the short term incentive program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential short term incentive available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Actual payments granted to each senior manager depend on the extent to which specific operating targets set at the beginning of the financial year are met. The payments are made at the discretion of the directors of the company.

The aggregate of annual payments available for executives across the Group is subject to the approval of the Remuneration Committee. Payments made are delivered as a cash bonus in the following reporting period.

The company may also make long term incentive payments to reward senior executives in a manner that aligns this element of remuneration with the creation of shareholder wealth.

The company rewards its senior management and executives by way of employee share options, with an exercise price typically greater than the market price of shares at the date of the issue of the options. The issue of options is not linked to performance conditions because by setting the option price at a level above the current share price at the time the options are granted, provides incentive for management to improve the company's performance.

#### *Performance Criteria*

Performance criteria are linked to the short term incentive program through the identification of key performance indicators relevant to each senior management position. The performance criterion is set by the Remuneration Committee and includes, but is not limited to:

- Good track record in regards to safety and environmental issues
- Low levels of employee turnover
- Adherence to project operational budgets and forecasts; and
- Other criteria that may be specified by the directors of the company at any time during the period of the contract.



## **DIRECTORS' REPORT (continued)**

### **Remuneration report (audited) (continued)**

#### **B Details of remuneration**

The following persons acted as directors during or since the end of the financial year:

R N Scott (Chairman)

T Engelsman (Managing Director) (appointed 2 April 2009)

J Playoust (appointed 2 April 2009)

C Gullotta (appointed 31 July 2009)

G Denison (resigned 28 August 2009)

G Towner (resigned 14 April 2009)

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted the named persons held their current position for the whole of the financial year and since the end of the financial year:

M Ger (Chief Executive Officer/Chief Financial Officer) (resigned 31 July 2009)

L Sole (National Operations Manager)

T Oosterhof (Company Secretary) (resigned 31 July 2009)

L Cianfagna (Chief Accounting Officer) (appointed 1 March 2009)

The remuneration of non-executive directors for the period ended 30 June 2009 is detailed in Table 1 of this report.

*Remuneration of directors and named executives*

**Table 1: Directors' remuneration for the year ended 30 June 2009**

|                   |      | Short-term employee benefits |            |                          | Post-employment benefits |                    | Share Based | Performance Related |   |   | Share Based Payments % |
|-------------------|------|------------------------------|------------|--------------------------|--------------------------|--------------------|-------------|---------------------|---|---|------------------------|
|                   |      | Salary & Fees \$             | Bonuses \$ | Non-Monetary Benefits \$ | Other \$                 | Super-annuation \$ |             | Total \$            | % |   |                        |
| R N Scott         | 2009 | 60,000                       | -          | -                        | -                        | -                  | -           | 60,000              | - | - | -                      |
| Chairman          | 2008 | 45,000                       | -          | -                        | -                        | -                  | -           | 45,000              | - | - | -                      |
| T Engelsman       | 2009 | -                            | -          | -                        | -                        | -                  | -           | -                   | - | - | -                      |
| Managing Director | 2008 | -                            | -          | -                        | -                        | -                  | -           | -                   | - | - | -                      |
| G Denison         | 2009 | 50,000                       | -          | -                        | -                        | -                  | -           | 50,000              | - | - | -                      |
| Non-Executive     | 2008 | 37,500                       | -          | -                        | -                        | -                  | -           | 37,500              | - | - | -                      |
| J Playoust        | 2009 | 12,500                       | -          | -                        | -                        | -                  | -           | 12,500              | - | - | -                      |
| Non-Executive     | 2008 | -                            | -          | -                        | -                        | -                  | -           | -                   | - | - | -                      |
| C Gullotta        | 2009 | -                            | -          | -                        | -                        | -                  | -           | -                   | - | - | -                      |
| Non-Executive     | 2008 | -                            | -          | -                        | -                        | -                  | -           | -                   | - | - | -                      |
| G Towner          | 2009 | 37,500                       | -          | -                        | -                        | -                  | -           | 37,500              | - | - | -                      |
| Non-Executive     | 2008 | 37,500                       | -          | -                        | -                        | -                  | -           | 37,500              | - | - | -                      |
| M L Ger           | 2009 | -                            | -          | -                        | -                        | -                  | -           | -                   | - | - | -                      |
| Finance Director  | 2008 | 73,333                       | -          | -                        | -                        | -                  | 13,370      | 86,703              | - | - | 15.4%                  |
| J Lilywhite       | 2009 | -                            | -          | -                        | -                        | -                  | -           | -                   | - | - | -                      |
| MD                | 2008 | 63,586                       | -          | -                        | -                        | 5,722              | -           | 69,308              | - | - | -                      |
| A J Mulgrew       | 2009 | -                            | -          | -                        | -                        | -                  | -           | -                   | - | - | -                      |
| Chairman          | 2008 | 20,000                       | -          | -                        | -                        | -                  | -           | 20,000              | - | - | -                      |
| G M Scott         | 2009 | -                            | -          | -                        | -                        | -                  | -           | -                   | - | - | -                      |
| Non-Executive     | 2008 | 12,500                       | -          | -                        | -                        | -                  | -           | 12,500              | - | - | -                      |



*Remuneration of directors and named executives*

**Table 2: Remuneration of the 5 named executives who received the highest remuneration for the year ended 30 June 2009**

|                                            |      | Salary & Fees | Bonuses | Non-Monetary Benefits | Other | Super-annuation | Share options | Total   | Performance Related | Share Based Payments |
|--------------------------------------------|------|---------------|---------|-----------------------|-------|-----------------|---------------|---------|---------------------|----------------------|
|                                            |      | \$            | \$      | \$                    | \$    | \$              | \$            | \$      | %                   | %                    |
| M L Ger<br>CEO/CFO                         | 2009 | 211,667       | -       | -                     | -     | -               | 14,156        | 225,823 | -                   | 7.1%                 |
|                                            | 2008 | 146,667       | -       | -                     | -     | -               | 66,026        | 212,693 | -                   | 31.0%                |
| L Sole<br>National Ops<br>Manager          | 2009 | 174,998       | 15,000  | -                     | -     | 17,499          | 14,156        | 221,653 | -                   | 6.3%                 |
|                                            | 2008 | 165,479       | -       | -                     | -     | 16,548          | 18,875        | 200,812 | -                   | 9.9%                 |
| Tania<br>Oosterhof<br>Company<br>Secretary | 2009 | 64,614        | -       | -                     | -     | 5,815           | 1,981         | 72,410  | -                   | 2.7%                 |
|                                            | 2008 | 57,038        | -       | -                     | -     | 5,133           | 718           | 62,889  | -                   | 1.1%                 |
| L Cianfagna<br>CAO                         | 2009 | 27,875        | -       | -                     | -     | 2,509           | -             | 30,384  | -                   | -                    |
|                                            | 2008 | -             | -       | -                     | -     | -               | -             | -       | -                   | -                    |
| J Lilywhite<br>CEO                         | 2009 | -             | -       | -                     | -     | -               | -             | -       | -                   | -                    |
|                                            | 2008 | 95,380        | -       | -                     | -     | 8,584           | -             | 103,964 | -                   | -                    |
| R Garrity<br>CEO (US Ops)                  | 2009 | -             | -       | -                     | -     | -               | -             | -       | -                   | -                    |
|                                            | 2008 | 488,888       | -       | -                     | -     | -               | -             | 488,888 | -                   | -                    |

M L Ger was Chief Executive Officer/Chief Financial Officer for part of the year and resigned 31 July 2009

T Oosterhof was Company Secretary for the full year and resigned 31 July 2009

L Sole was National Operations Manager for the full year

L Cianfagna was appointed Chief Accounting Officer on 1 March 2009

J Lilywhite resigned as Chief Executive Officer and Managing Director on 26 November 2007 and has been included for comparative purposes

## DIRECTORS' REPORT (continued)

### Remuneration report (continued)

#### C Service agreements

Remuneration and other terms of employment for the Managing Director, Chief Financial Officer and the other key management personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses where eligible in the Group's Employee Share Option Plan. Other major provisions of the agreements relating to remuneration are set out below:

##### *Employment contract – L Sole, National Operations Manager*

- Term of contract – ongoing.
- Base salary, inclusive of superannuation of 10% of \$192,500.
- Performance based incentive bonus payable at the discretion of the directors of the company at an amount determinable by the directors at the time payment is made.

##### *Employment contract – T Oosterhof, Company Secretary*

- Term of contract – ending 30 September 2009.
- Base salary, inclusive of superannuation of \$70,000.
- Ex-gratia payment equivalent to 4 weeks base salary upon completion of contract.

##### *Employment contract – L Cianfagna, Chief Accounting Officer*

- Term of contract – ending 31 October 2009.
- Base salary, inclusive of superannuation of \$130,800.
- Ex-gratia payment equivalent to 6 weeks base salary upon completion of contract.

##### *Consultancy agreement – Picola Holdings Pty Ltd*

A consultancy agreement was in place between the company and Picola Holdings Pty Ltd, a company in which Mr M Ger has an interest. Picola provided consulting services to the company on a month to month basis. Picola received a fixed remuneration of \$220,000 per annum; this amount was reduced during the period to \$132,000. Subsequent to the end of the financial year, the agreement with Picola Holdings was terminated.

##### *Consultancy agreement – International Business Development Consultants Pty Ltd*

A consultancy agreement was in place between the company and International Business Development Consultants Pty Ltd ("IBDC"), a company in which Mr G Denison has an interest. IBDC will provide management services in relation to the Picton plant and receive a fixed remuneration of \$6,000 per month.

##### *Employment contract – T Engelsman - Managing Director*

An employment contract is in the process of being negotiated between the company and Mr Engelsman and is expected to be executed in October 2009. An in-principle agreement has been reached in which the terms of the employment contract will be as follows, but it should be noted that this is subject to change up to the point that the contract is executed.

- Term of contract – ending 16 April 2012.
- Base salary, exclusive of superannuation, for the year ended 30 June 2010 of \$225,000.
- Superannuation contributions of 9% of base salary.
- Short term incentive up to a maximum of 75% of base salary based on key performance indicators to be determined by the Board.
- Long term incentive of the granting of 30 million options at terms to be determined by the Board and subject to the company first obtaining all necessary regulatory and shareholder approvals under the Listing Rules of Australian Stock Exchange Limited and the Corporations Act.



**DIRECTORS' REPORT (continued)****Remuneration report (continued)****C Service agreements (continued)***Service agreements – Other Directors*

No director of the company holds a service agreement. All directors are paid in accordance with a resolution passed at a shareholders meeting and will not exceed the aggregate amount of \$300,000 per annum. Directors' remuneration as disclosed in the Remuneration Report is determined by a resolution at each Annual General Meeting.

**D Share based compensation**

Options over shares in the company are granted under the company's Employee Share Option Plan which was approved by shareholders. The Employee Share Option Plan is designed to provide long term incentives for executives to deliver long term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met and the employees are still employed by the Group at the end of the vesting period. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefit.

Vesting of the share options is subject to the conditions imposed at grant date. Options are granted under the plan for no consideration. Details of options issued as compensation during the period are set out in the following tables.

**Table 3: Share-based compensation to directors and executives during the current financial year**

| Name        | Option series | Grant Date | During the financial year |            |                   |                      |
|-------------|---------------|------------|---------------------------|------------|-------------------|----------------------|
|             |               |            | No. granted               | No. vested | % of grant vested | % of grant forfeited |
| M L Ger     | ESOP          | 22/09/08   | 500,000                   | 500,000    | 100%              | -                    |
| L Sole      | ESOP          | 22/09/08   | 500,000                   | 500,000    | 100%              | -                    |
| T Oosterhof | ESOP          | 22/09/08   | 70,000                    | 70,000     | 100%              | -                    |

The options were granted for nil consideration.

All options granted during the period that were allotted to key management personnel who are no longer with the company, have lapsed.

There are no options existing under the Employee Share Option Plan for any personnel no longer with the company. Under the rules of the Employee Share Option Plan, all staff who have left the company must exercise their options within 3 months or the options lapse.

**DIRECTORS' REPORT (continued)****Remuneration report (continued)****D Share based compensation (continued)****Table 4: Terms and conditions of each grant of options affecting remuneration in the previous, this and future reporting periods**

| Grant Date | Date vested and exercisable | Expiry date | Exercise price | Value per option at grant date | % Vested |
|------------|-----------------------------|-------------|----------------|--------------------------------|----------|
| 18/10/2004 | 18/10/2005                  | 18/10/2009  | \$0.50         |                                | 100%     |
| 18/10/2004 | 18/10/2006                  | 18/10/2009  | \$1.00         |                                | 100%     |
| 18/10/2004 | 18/10/2007                  | 18/10/2009  | \$1.50         |                                | 100%     |
| 10/08/2005 | 30/06/2006                  | 30/06/2010  | \$1.13         |                                | 100%     |
| 10/08/2005 | 30/06/2007                  | 30/06/2010  | \$1.50         |                                | 100%     |
| 10/08/2005 | 30/06/2008                  | 30/06/2010  | \$2.00         |                                | 100%     |
| 30/06/2007 | 30/06/2008                  | 15/06/2012  | \$0.60         |                                | 100%     |
| 26/03/2008 | 26/03/2008                  | 26/03/2013  | \$0.10         |                                | 100%     |
| 26/03/2008 | 30/06/2008                  | 26/03/2013  | \$0.10         |                                | 100%     |
| 26/03/2008 | 30/06/2009                  | 26/03/2013  | \$0.10         |                                | 100%     |
| 26/03/2008 | 18/10/2008                  | 26/03/2013  | \$0.10         |                                | 100%     |
| 26/03/2008 | 30/06/2010                  | 26/03/2013  | \$0.10         |                                | 0%       |
| 26/03/2008 | 31/12/2008                  | 26/03/2013  | \$0.10         |                                | 100%     |
| 22/09/2008 | 30/06/2009                  | 22/09/2013  | \$0.10         |                                | 100%     |

Options granted under the plan are issued at no consideration.

Personnel who resign from their employment with the company must exercise their options within 3 months or the options lapse.

**Table 5: Options granted, exercised or lapsed during the year to directors and executives**

| Name        | Value of options granted at the grant date<br>\$ | Value of options exercised at the exercise date<br>\$ | Value of options lapsed at the date of lapse<br>\$ |
|-------------|--------------------------------------------------|-------------------------------------------------------|----------------------------------------------------|
| M L Ger     | 14,156                                           | -                                                     | -                                                  |
| L Sole      | 14,156                                           | -                                                     | -                                                  |
| T Oosterhof | 1,981                                            | -                                                     | -                                                  |

When exercisable, each option is convertible into one ordinary share and carries the same right to dividends and voting rights as all other ordinary shares issued. No options were exercised during the period by directors or executives and no amounts were unpaid on the exercise of options during the year by directors and executives.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are 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 volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

# DIRECTORS' REPORT (continued)

## D Share based compensation (continued)

The model inputs for options granted during the year ended 30 June 2009 included:

|                                 |         |
|---------------------------------|---------|
| Exercise Price                  | \$0.10  |
| Expected volatility (%)         | 217%    |
| Risk-free interest rate (%)     | 5.68%   |
| Expected life of option (years) | 5 years |
| Exercise price (cents)          | \$0.10  |
| Grant date share price          | \$0.029 |

This is the end of the audited remuneration report.

## Directors' meetings

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

|                                                         | Directors'<br>Meetings |    | Audit<br>Committee |   | Remuneration<br>Committee |   |
|---------------------------------------------------------|------------------------|----|--------------------|---|---------------------------|---|
| Number of meetings held                                 | 23                     |    | 1                  |   | -                         |   |
|                                                         | A                      | B  | A                  | B | A                         | B |
| R N Scott (Chairman)                                    | 23                     | 23 | 1                  | 1 | -                         | - |
| T Engelsman (Managing Director)(appointed 2 April 2009) | 12                     | 12 | -                  | - | -                         | - |
| J Playoust (appointed 2 April 2009)                     | 12                     | 12 | -                  | - | -                         | - |
| C Gullotta (appointed 31 July 2009)                     | -                      | -  | -                  | - | -                         | - |
| G Denison (resigned 28 August 2009)                     | 22                     | 23 | 1                  | 1 | -                         | - |
| G Towner (resigned 14 April 2009)                       | 10                     | 20 | -                  | - | -                         | - |

A = Number of meetings attended

B = Number of meetings eligible to attend

## 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.

## Auditor independence and non-audit services

Section 307C of the Corporations Act 2001 requires our auditors, BDO Kendalls, to provide the directors of the company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 25 and forms part of this directors' report for the year ended 30 June 2009.

## Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 22 to the financial statements. 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 2001.



## **DIRECTORS' REPORT (continued)**

### **Non-Audit Services (continued)**

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

Signed in accordance with a resolution of the directors.



R N Scott

Chairman

Perth, 30 September 2009



## CORPORATE GOVERNANCE STATEMENT

### 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") 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.

### Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Director's Report. Directors of Australian Renewable Fuels Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, 'materiality' is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Australian Renewable Fuels Limited are considered to be independent:

| <b>Name</b>      | <b>Position</b>                     |
|------------------|-------------------------------------|
| Robert N Scott   | Chairperson, Non-Executive Director |
| Charles Gullotta | Non-Executive Director              |

There are procedures in place, agreed by the Board, to enable directors in the furtherance of their duties to seek independent professional advice at the company's expense.

The term in office held by each director in office at the date of this report is as follows:

| <b>Name</b>      | <b>Appointment Date</b> |
|------------------|-------------------------|
| Robert N Scott   | 24 December 2002        |
| Julien Playoust  | 2 April 2009            |
| Charles Gullotta | 31 July 2009            |
| Tom Engelsman    | 2 April 2009            |

### Board Committees

#### Nomination Committee

There is no specific Nomination Committee. All members of the Board are part of this process to ensure the Board continues to operate within the established guidelines including when necessary, selecting candidates for the position of director. 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.



# CORPORATE GOVERNANCE STATEMENT

## Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non financial considerations such as the benchmarking of operations key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit Committee.

The Committee also provides the Board with Additional assurance regarding the reliability of financial information for inclusion in the financial reports.

## Members of the Audit Committee during the year were:

|                  |                                  |
|------------------|----------------------------------|
| Robert N Scott   | Chairman retiring 31 July 2009   |
| Charles Gullotta | Chairman commencing 31 July 2009 |
| Glyn Denison     | Retired 31 July 2009             |

| Name             | Qualifications of Audit Committee Members |
|------------------|-------------------------------------------|
| Robert N Scott   | Chartered Accountant - FCA & MAICD        |
| Charles Gullotta | Certified Practicing Accountant           |
| Glyn Denison     | Bachelor of Engineering                   |

## Risk

The identification and effective management of risk is viewed as an essential part of the company's approach to creating long-term shareholder value.

In recognition of this, the Board determines the company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. In doing so, the Board has taken the view that it is crucial for all Board members to be part of this process and as such has not established a separate risk management committee.

The Board oversees an annual assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management, including responsibility for the day to day design and implementation of the company's risk management and internal control system. Management report to the Board on the company's key risks and the extent to which it believes these risks are being adequately managed.

## Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the Board conducted performance evaluation that involved an assessment of each Board member's and key executive's performance against specific and measurable qualitative and quantitative performance criteria. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of Australian Renewable Fuels Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.



## CORPORATE GOVERNANCE STATEMENT

### Remuneration Committee

#### Company's Remuneration Philosophy and Policies

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance.

The expected outcomes of the remuneration structure are:

- retention and motivation of key executives;
- attraction of high quality management to the company; and
- performance incentives that allow executives to share the success of Australian Renewable Fuels Limited

For a full discussion of the company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the remuneration report, which is contained within the Directors Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the chief executive officer and executive team. The Board has established a Remuneration Committee, comprising of two non-executive directors.

The remuneration committee is comprised of:

#### Name

|                 |                                   |
|-----------------|-----------------------------------|
| Julien Playoust | Chairman – Remuneration Committee |
| Robert N Scott  |                                   |

For details on the number of meetings of the Remuneration committee held during the year and the attendees at those meetings refer to the Director's Report.





BDO Kendalls

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ABN 79 112 284 787

30 September 2009

Board of Directors  
Australian Renewable Fuels Limited  
PO BOX 119  
NORTH PERTH WA 6906

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 year ended 30 June 2009, 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**  
Director

**BDO Kendalls Audit & Assurance (WA) Pty Ltd**  
Perth, Western Australia

**INCOME STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

|                                                                                                         |       | Consolidated |              | Parent      |              |
|---------------------------------------------------------------------------------------------------------|-------|--------------|--------------|-------------|--------------|
|                                                                                                         | Notes | 2009<br>\$   | 2008<br>\$   | 2009<br>\$  | 2008<br>\$   |
| Revenue from continuing operations                                                                      | 2     | 2,023,677    | 5,312,017    | 339,309     | 75,824       |
| Other income                                                                                            | 2     | 214,689      | 26,716       | 210,189     | 28,132       |
| Change in inventories of finished goods<br>consumables and raw materials                                |       | (2,515,672)  | (7,667,745)  | -           | -            |
| Administrative expenses                                                                                 |       | (2,041,111)  | (2,062,124)  | (1,079,647) | (1,112,010)  |
| Employee benefits expense                                                                               |       | (1,782,608)  | (1,355,689)  | (801,266)   | (251,126)    |
| Depreciation and amortisation expense                                                                   |       | (4,005,991)  | (1,520,059)  | (53,648)    | (74,523)     |
| Impairment of non-current assets                                                                        |       | (1,296,000)  | (43,279,391) | -           | (51,319,553) |
| Impairment of inter-company loans                                                                       |       | -            | -            | (6,854,578) | -            |
| Finance costs                                                                                           |       | (92,922)     | (249,127)    | (45,386)    | (228,416)    |
| <b>Loss before income tax expense</b>                                                                   | 2     | (9,495,938)  | (50,795,402) | (8,285,027) | (52,881,672) |
| Income tax expense                                                                                      | 3     | -            | (7,748,012)  | -           | (7,689,018)  |
| <b>Loss after tax from continuing operations</b>                                                        |       | (9,495,938)  | (58,543,414) | (8,285,027) | (60,570,690) |
| Profit/(loss) from discontinued operation                                                               | 5     | 516,229      | (3,279,348)  | -           | -            |
| <b>Loss for the year</b>                                                                                |       | (8,979,709)  | (61,822,762) | (8,285,027) | (60,570,590) |
| Loss is attributable to:                                                                                |       |              |              |             |              |
| Equity holders of the Australian Renewable Fuels<br>Limited                                             |       | (8,979,709)  | (53,593,443) | (8,285,027) | (60,570,590) |
| Minority interest                                                                                       |       | -            | (8,229,319)  | -           | -            |
|                                                                                                         |       | (8,979,709)  | (61,822,762) | (8,285,027) | (60,570,590) |
| Loss per share from continuing operations<br>attributable to ordinary equity holders of the<br>company: |       |              |              |             |              |
| Basic loss per share (cents per share)                                                                  | 6     | (3.15)       | (30.64)      |             |              |
| Diluted loss per share (cents per share)                                                                | 6     | (3.15)       | (30.64)      |             |              |
| Earnings/(loss) per share from discontinued<br>operations:                                              |       |              |              |             |              |
| Basic earnings/(loss) per share (cents per share)                                                       |       | 0.17         | (1.72)       |             |              |
| Diluted earnings/(loss) per share (cents per<br>share)                                                  |       | 0.17         | (1.72)       |             |              |

The accompanying notes form part of these financial statements

**BALANCE SHEETS  
AS AT 30 JUNE 2009**

|                                                                                           |       | Consolidated     |                   | Parent           |                   |
|-------------------------------------------------------------------------------------------|-------|------------------|-------------------|------------------|-------------------|
|                                                                                           | Notes | 2009<br>\$       | 2008<br>\$        | 2009<br>\$       | 2008<br>\$        |
| <b>ASSETS</b>                                                                             |       |                  |                   |                  |                   |
| <b>Current Assets</b>                                                                     |       |                  |                   |                  |                   |
| Cash and cash equivalents                                                                 | 8     | 5,427            | 1,310,923         | 5,250            | 1,162,351         |
| Trade and other receivables                                                               | 9     | 381,590          | 1,376,307         | 261,659          | 406,139           |
| Inventories                                                                               | 11    | 428,525          | 1,455,964         |                  | -                 |
| Assets classified as held for sale                                                        | 5     | 678,985          | -                 | 678,985          | -                 |
| <b>Total Current Assets</b>                                                               |       | <b>1,494,527</b> | <b>4,143,194</b>  | <b>945,894</b>   | <b>1,568,490</b>  |
| <b>Non-Current Assets</b>                                                                 |       |                  |                   |                  |                   |
| Other financial assets                                                                    | 10    | -                | -                 | 3,051,278        | 8,874,997         |
| Property, plant and equipment                                                             | 12    | 3,999,855        | 9,961,707         | 103,937          | 836,572           |
| Intangible assets                                                                         | 13    | -                | -                 | -                | -                 |
| <b>Total Non-Current Assets</b>                                                           |       | <b>3,999,855</b> | <b>9,961,707</b>  | <b>3,155,215</b> | <b>836,581</b>    |
| <b>Total Assets</b>                                                                       |       | <b>5,494,382</b> | <b>14,104,901</b> | <b>4,101,109</b> | <b>11,280,059</b> |
| <b>LIABILITIES</b>                                                                        |       |                  |                   |                  |                   |
| <b>Current Liabilities</b>                                                                |       |                  |                   |                  |                   |
| Trade and other payables                                                                  | 14    | 2,204,165        | 2,761,463         | 828,091          | 754,504           |
| Borrowings                                                                                | 15    | 1,000,000        | 400,000           | 1,000,000        | 400,000           |
| <b>Total Current Liabilities</b>                                                          |       | <b>3,204,165</b> | <b>3,161,463</b>  | <b>1,828,091</b> | <b>1,154,504</b>  |
| <b>Non-Current Liabilities</b>                                                            |       |                  |                   |                  |                   |
| Trade and other payables                                                                  | 14    | 17,199           | 52,498            | -                | -                 |
| <b>Total Non-Current Liabilities</b>                                                      |       | <b>17,199</b>    | <b>52,498</b>     | <b>-</b>         | <b>-</b>          |
| <b>Total Liabilities</b>                                                                  |       | <b>3,221,364</b> | <b>3,213,961</b>  | <b>1,828,091</b> | <b>1,154,504</b>  |
| <b>Net Assets</b>                                                                         |       | <b>2,273,018</b> | <b>10,890,940</b> | <b>2,273,018</b> | <b>10,125,555</b> |
| <b>EQUITY</b>                                                                             |       |                  |                   |                  |                   |
| Contributed equity                                                                        | 16    | 102,639,583      | 102,289,677       | 102,639,583      | 102,289,677       |
| Reserves                                                                                  | 16    | (74,711)         | (86,592)          | 401,597          | 319,013           |
| Retained losses                                                                           | 16    | (100,291,854)    | (91,312,145)      | (100,768,162)    | (92,483,135)      |
| Capital and reserves attributable to equity holders of Australian Renewable Fuels Limited |       | 2,273,018        | 10,890,940        | 2,273,018        | 10,125,555        |
| Minority interest                                                                         |       | -                | -                 | -                | -                 |
| <b>Total Equity</b>                                                                       |       | <b>2,273,018</b> | <b>10,890,940</b> | <b>2,273,018</b> | <b>10,125,555</b> |

The accompanying notes form part of these financial statements



# **CASH FLOW STATEMENTS** **FOR THE YEAR ENDED 30 JUNE 2009**

|                                                                           |      | Consolidated     |                  | Parent      |                  |
|---------------------------------------------------------------------------|------|------------------|------------------|-------------|------------------|
|                                                                           | Note | 2009<br>\$       | 2008<br>\$       | 2009<br>\$  | 2008<br>\$       |
| <b>Cash flows from operating activities</b>                               |      |                  |                  |             |                  |
| Receipts from customers (inclusive of goods and services tax)             |      | 3,007,326        | 6,107,680        | 931,505     | -                |
| Payments to suppliers and employees (inclusive of goods and services tax) |      | (5,318,790)      | (12,384,647)     | (3,008,335) | (2,578,778)      |
|                                                                           |      | (2,311,464)      | (6,276,967)      | (2,076,830) | (2,578,778)      |
| Interest received                                                         |      | 12,679           | 80,236           | 10,860      | 75,824           |
| Interest paid                                                             |      | (92,922)         | (249,127)        | (45,386)    | (228,416)        |
| Net cash (outflow) from operating activities                              | 8    | (2,391,707)      | (6,445,858)      | (2,111,356) | (2,731,370)      |
| <b>Cash flows from investing activities</b>                               |      |                  |                  |             |                  |
| Proceeds from sale of non-current assets                                  |      | -                | 304,518          | -           | 47,164           |
| Payments for property plant and equipment                                 |      | (68,892)         | (1,932,956)      | -           | (2,321)          |
| Payments for intangibles                                                  |      | -                | (151,334)        | -           | -                |
| Net cash outflow from disposal of entities                                | 5    | (292,560)        | -                | -           | -                |
| Loans to related parties                                                  |      | -                | -                | -           | (3,983,015)      |
| Net cash (outflow) from investing activities                              |      | (361,452)        | (1,779,772)      | -           | (3,938,172)      |
| <b>Cash flows from financing activities</b>                               |      |                  |                  |             |                  |
| Proceeds from issue of shares                                             |      | 427,848          | 4,937,683        | 427,848     | 2,625,279        |
| Payments for share issue costs                                            |      | (77,942)         |                  | (77,942)    | -                |
| Proceeds from borrowings                                                  |      | 600,000          |                  | 600,000     |                  |
| Repayment of borrowings                                                   |      | -                | (1,261,779)      | -           | (1,200,000)      |
| Finance lease payments                                                    |      | (42,024)         | -                | -           | -                |
| Net cash inflow from financing activities                                 |      | 907,882          | 3,675,904        | 949,906     | 1,425,279        |
| Net (decrease) in cash and cash equivalents                               |      | (1,845,277)      | (4,549,726)      | (1,161,450) | (5,244,263)      |
| Cash and cash equivalents at 1 July 2008                                  |      | 1,310,923        | 6,081,472        | 1,162,351   | 6,406,615        |
| Effect of exchange rate changes on cash and cash equivalents              |      | (70,703)         | (220,823)        | -           | -                |
| <b>Cash and cash equivalents at 30 June 2009</b>                          |      | <b>(605,057)</b> | <b>1,310,923</b> | <b>901</b>  | <b>1,162,351</b> |

The accompanying notes form part of these financial statements



**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2009**

| <b>Consolidated</b>                                               | <b>Issued Capital</b> | <b>Accumulated<br/>Losses</b> | <b>Foreign Currency<br/>Translation<br/>Reserve</b> | <b>Option Reserve</b> | <b>Minority<br/>Interests</b> | <b>Total</b>        |
|-------------------------------------------------------------------|-----------------------|-------------------------------|-----------------------------------------------------|-----------------------|-------------------------------|---------------------|
|                                                                   | \$                    | \$                            | \$                                                  | \$                    | \$                            | \$                  |
| <b>Balance as at 1 July 2007</b>                                  | <b>99,664,398</b>     | <b>(37,718,702)</b>           | <b>(142,516)</b>                                    | <b>1,095,425</b>      | <b>5,916,915</b>              | <b>68,815,520</b>   |
| Exchange differences arising on translation of foreign operations | -                     | -                             | (263,089)                                           | -                     | -                             | (263,089)           |
| <b>Income and expenses recognised directly in equity</b>          |                       |                               |                                                     |                       |                               |                     |
| Loss attributable to members of the parent entity                 | -                     | (53,593,443)                  | -                                                   | -                     | -                             | (53,593,443)        |
| Loss attributable to minority interest                            | -                     | -                             | -                                                   | -                     | (8,229,319)                   | (8,229,319)         |
| <b>Total recognised income and expense</b>                        |                       | <b>(53,593,443)</b>           | <b>(263,089)</b>                                    | <b>-</b>              | <b>(8,229,319)</b>            | <b>(62,085,851)</b> |
| Shares issued during the year                                     | 2,625,279             | -                             | -                                                   | -                     | 2,312,404                     | 4,937,683           |
| Recognition of share-based payments                               | -                     | -                             | -                                                   | 55,974                | -                             | 55,974              |
| Transfer – expired share options expense                          | -                     | -                             | -                                                   | (832,386)             | -                             | (832,386)           |
| <b>Balance at 30 June 2008</b>                                    | <b>102,289,677</b>    | <b>(91,312,145)</b>           | <b>(405,605)</b>                                    | <b>319,013</b>        | <b>-</b>                      | <b>10,890,940</b>   |
| <b>Balance as at 1 July 2008</b>                                  | <b>102,289,677</b>    | <b>(91,312,145)</b>           | <b>(405,605)</b>                                    | <b>319,013</b>        | <b>-</b>                      | <b>10,890,940</b>   |
| Exchange differences arising on translation of foreign operations | -                     | -                             | (70,703)                                            | -                     | -                             | (70,703)            |
| <b>Income and expenses recognised directly in equity</b>          |                       |                               |                                                     |                       |                               |                     |
| Loss attributable to members of the parent entity                 | -                     | (8,979,709)                   | -                                                   | -                     | -                             | (8,979,709)         |
| <b>Total recognised income and expense</b>                        |                       | <b>(8,979,709)</b>            | <b>(70,703)</b>                                     | <b>-</b>              | <b>-</b>                      | <b>(9,050,412)</b>  |
| Shares issued during the year net of share issue costs            | 349,906               | -                             | -                                                   | -                     | -                             | 349,906             |
| Recognition of share-based payments                               | -                     | -                             | -                                                   | 82,584                | -                             | 82,584              |
| <b>Balance at 30 June 2009</b>                                    | <b>102,639,583</b>    | <b>(100,291,854)</b>          | <b>(476,308)</b>                                    | <b>401,597</b>        | <b>-</b>                      | <b>2,273,018</b>    |

The accompanying notes form part of these financial statements



**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2009**

| Parent                                                            | Issued Capital     | Accumulated<br>Losses | Foreign Currency<br>Translation<br>Reserve | Option Reserve   | Minority<br>Interests | Total             |
|-------------------------------------------------------------------|--------------------|-----------------------|--------------------------------------------|------------------|-----------------------|-------------------|
| \$                                                                | \$                 | \$                    | \$                                         | \$               | \$                    | \$                |
| <b>Balance as at 1 July 2007</b>                                  | <b>99,664,398</b>  | <b>(31,912,445)</b>   | -                                          | <b>1,095,425</b> | -                     | <b>68,847,378</b> |
| Exchange differences arising on translation of foreign operations | -                  | -                     | -                                          | -                | -                     | -                 |
| <b>Income and expenses recognised directly in equity</b>          |                    |                       |                                            |                  |                       |                   |
| Loss attributable to members of the parent entity                 | -                  | (60,570,690)          | -                                          | -                | -                     | (60,570,690)      |
| Loss attributable to minority interest                            | -                  | -                     | -                                          | -                | -                     | -                 |
| <b>Total recognised income and expense</b>                        |                    |                       |                                            |                  |                       |                   |
| Shares issued during the year                                     | 2,625,279          | -                     | -                                          | -                | -                     | 2,625,279         |
| Recognition of share-based payments                               | -                  | -                     | -                                          | 55,974           | -                     | 55,974            |
| Transfer – expired share options expense                          | -                  | -                     | -                                          | (832,386)        | -                     | (832,386)         |
| <b>Balance at 30 June 2008</b>                                    | <b>102,289,677</b> | <b>(92,483,135)</b>   | -                                          | <b>319,013</b>   | -                     | <b>10,125,555</b> |
| <b>Balance as at 1 July 2008</b>                                  | <b>102,289,677</b> | <b>(92,483,135)</b>   | -                                          | <b>319,013</b>   | -                     | <b>10,125,555</b> |
| Exchange differences arising on translation of foreign operations | -                  | -                     | -                                          | -                | -                     | -                 |
| <b>Income and expenses recognised directly in equity</b>          |                    |                       |                                            |                  |                       |                   |
| Loss attributable to members of the parent entity                 | -                  | (8,285,027)           | -                                          | -                | -                     | (8,285,027)       |
| Loss attributable to minority interest                            | -                  | -                     | -                                          | -                | -                     | -                 |
| <b>Total recognised income and expense</b>                        |                    |                       |                                            |                  |                       |                   |
| Shares issued during the year net of share issue costs            | 349,906            | -                     | -                                          | -                | -                     | 349,906           |
| Recognition of share-based payments                               | -                  | -                     | -                                          | 82,584           | -                     | 82,584            |
| <b>Balance at 30 June 2009</b>                                    | <b>102,639,583</b> | <b>(100,768,162)</b>  | -                                          | <b>401,597</b>   | -                     | <b>2,273,018</b>  |

The accompanying notes form part of these financial statements

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT 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 Australia Renewable Fuels Limited and its subsidiaries.

### (a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and Australian Accounting Interpretations and complies with other requirements of the law.

#### *Compliance with IFRS*

The financial report of the company also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### *Historical cost convention*

The financial report has also been prepared on a historical cost basis. Cost is based on the fair values of the consideration given in exchange for assets.

#### *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 judgement in the process of applying the Group's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1(e).

The financial report is presented in Australian dollars.

The company is a listed public company, incorporated in Australia and operating in Australia. The entity's principal activities are operation of the 44.5 million litres per annum biodiesel plant in Largs Bay, South Australia and the 44.5 million litres per annum biodiesel plant in Picton, Western Australia.

### Going concern

The Group incurred a loss after tax for the full year of \$8.9 million. At 30 June 2009 the Group had negative working capital of \$1.7 million. Notwithstanding the deficiency in working capital, the directors of the company consider it appropriate to prepare the financial report on a going concern basis due to the following events providing necessary working capital requirements of the company:

- Successful completion of the fully underwritten Rights Issue subsequent to the end of the financial year raising \$2.2 million;
- The receipt of the net proceeds from the sale of the Picton land of \$2 million; and
- The continued normal business activities of the company which is expected to achieve positive results.

### (b) Adoption of new and revised standards

#### Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2009, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Adoption of new and revised standards (continued)

| AASB reference                  | Title and Affected Standard(s):                                                                                                                                                                                                                                                                                        | Nature of Change                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Application date:                          | Impact on Initial Application                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB 127 (reissued March 2008)  | Consolidated and Separate Financial Statements                                                                                                                                                                                                                                                                         | The revised standard clarifies that changes in ownership interest which result in control being retained are accounted for within equity as transactions with owners. Losses will be attributed to the non-controlling interest even if this results in a debit balance for the non-controlling interest. Investments retained where there has been a loss of control will be recognised at fair value at date of sale.                                                             | Periods commencing on or after 1 July 2009 | As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted. However, ARF Inc. is incurring losses. To the extent that ARF Inc. incurs losses for the financial year ending 30 June 2010/31 December 2010, such losses will be attributed to the non-controlling interest. No adjustment will be made to comparatives for losses not previously attributed to the non-controlling interest.                                                                                                                                                                                                                                                      |
| AASB 2008-3 (issued March 2008) | Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASB 1, AASB 2, AASB 4, AASB 5, AASB 7, AASB 101, AASB 107, AASB 112, AASB 114, AASB 116, AASB 121, AASB 128, AASB 131, AASB 132, AASB 133, AASB 134, AASB 136, AASB 137, AASB 138, AASB 139, Interpretation 9 and Interpretation 107] | Makes consequential amendments to 20 standards and 2 interpretations arising from the reissue of AASB 3 and AASB 127, including to AASB 128: Investments in Associates and AASB 131: Interests in Joint Ventures.<br><br>When an investment ceases to be an associate or jointly controlled entity and is subsequently accounted for under AASB 139, the fair value of the investment at the date when it ceases to be an associate or jointly controlled entity is its fair value. | Periods commencing on or after 1 July 2009 | As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted. However, in future, if the (group) loses significant influence over associates or joint control in jointly controlled entities which are equity accounted, at that date such investments are recognised at fair value rather than at the carrying value of the equity accounted investment. Where the fair value of such investments exceed the equity accounted carrying amounts, this could result in a significant increase in earnings in the period when significant influence or joint control is lost.<br><br>There will also be a number of additional/amended disclosures. |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Adoption of new and revised standards (continued)

| AASB reference                                                                                                            | Title and Affected Standard(s):                                                                                      | Nature of Change                                                                                                                                                                                                                                                                                                                                                        | Application date:                             | Impact on Initial Application                                                                                                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB 2008-1 (issued February 2008)                                                                                        | Amendments to AASB 2 – Share-based Payments – Vesting Conditions and Cancellations                                   | The definition of <i>vesting conditions</i> has changed and the accounting treatment clarified for cancellations to share-based payment arrangements by the counterparty. This is to ensure that conditions other than performance conditions do not result in a 'true up' of the share-based payment expense and are treated in a manner similar to market conditions. | Periods commencing on or after 1 January 2009 | To date the entity has not issued any options to employees that include non-vesting conditions and as such there will be no impact on the financial statements when this revised standard is adopted for the first time. |
| AASB 2008-6 (issued July 2008)                                                                                            | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5] | If a parent entity is committed to a sale plan involving loss of control of a subsidiary that meets the criteria for classification as held-for-sale under AASB 5, all the assets and liabilities of that subsidiary must be classified as held for sale.                                                                                                               | Periods commencing on or after 1 July 2009    | There will be no impact as these requirements are only required to be applied prospectively to situations where there is a plan involving loss of control in annual periods commencing on or after 1 July 2009.          |
| AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (issued July 2008) | Impairment of Assets                                                                                                 | Additional disclosure requirements about discounted cash flow assumptions used for the fair value less costs to sell method.                                                                                                                                                                                                                                            | Periods commencing on or after 1 January 2009 | There will be no financial impact when these amendments are first adopted because these amendments relate to additional disclosure requirements only.                                                                    |
| AASB 136                                                                                                                  |                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                         |                                               |                                                                                                                                                                                                                          |



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Adoption of new and revised standards (continued)

| AASB reference                      | Title and Affected Standard(s):                                                                                                                                                      | Nature of Change                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Application date:                             | Impact on Initial Application                                                                                                                                                  |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB 2008-7 (issued July 2008)      | Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate<br>[AASB 1, AASB 118, AASB 121, AASB 127 and AASB 136] | The change relates to situations where a parent entity reorganises a group such that a new entity is created as the parent entity, or a new entity is interposed in a group between a subsidiary and its parent, and the consideration for the transaction is equity instruments of the new entity.<br><br>In such cases, the new parent measures the cost of its investment at the carrying amount of its share of the net assets (equity) of the original parent (in its separate financial statements) at the date of reorganisation.                 | Periods commencing on or after 1 January 2009 | There will be no impact as these requirements are only required to be applied prospectively to reorganisations occurring in annual periods commencing on or after 1 July 2009. |
| AASB 2008-13 (issued December 2008) | Amendments to Australian Accounting Standards Arising From AASB Interpretation 17 – Distributions of Non-Cash Assets to Owners                                                       | Clarifies that the classification, presentation and measurement requirements of AASB 5 also apply to non-current assets (or disposal groups) that are classified as held-for-distribution to owners acting in their capacity as owners.<br><br>Non-current assets (or disposal groups) are classified as held-for-distribution when the entity is committed to distribute the asset (or disposal group) to owners, i.e. the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. | Periods commencing on or after 1 July 2009    | There will be no impact as these requirements are only required to be applied prospectively to annual periods commencing on or after 1 July 2009.                              |



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Adoption of new and revised standards (continued)

| AASB reference                     | Title and Affected Standard(s):                                                                   | Nature of Change                                                                           | Application date:                                              | Impact on Initial Application                                                                                                                                                                                                                                                                                                                       |
|------------------------------------|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB 8<br>(Issued Feb 2007)        | Operating Segments                                                                                | Replaces the disclosure requirements of AASB 114: <i>Segment Reporting</i> .               | 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).                                                                       |
| AASB 101<br>(Revised Sep 2007)     | Presentation of Financial Statements                                                              | Amendments to presentation and naming of the financial statements.                         | Annual reporting 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, there will be various changes to the way financial statements are presented and various changes to names of individual financial statements.                                                                             |
| AASB 2009-2<br>(Issued April 2009) | Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments | Requires additional disclosures about financial instrument fair values and liquidity risk. | 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, various additional disclosures will be required about fair values of financial instruments and the entity's liquidity risk. No comparative disclosures are required in the first year that these amendments are applied. |



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Adoption of new and revised standards (continued)

| AASB reference                                                                                                                            | Title and Affected Standard(s):                                          | Nature of Change                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Application date:                             | Impact on Initial Application                                                                                                                                                                                                                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (issued July 2008)<br><br>AASB 127 | Consolidated and Separate Financial Statements                           | Previously, all investments in subsidiaries, associates or jointly controlled entities in the separate financial statements of the investor, that were classified as held for sale were to be measured under AASB 5, i.e. at the lower of carrying amount and fair value less costs to sell.<br><br>The change now only permits such investments measured using the "cost" method under AASB 127 to be measured under AASB 5. Investments measured using the "fair value" method continue to be measured under AASB 139, even if they become classified as held for sale. | Periods commencing on or after 1 January 2009 | This amendment will have no impact when this amendment is first adopted because the entity uses the cost method under AASB 127 to account for its investments in subsidiaries, associates and jointly controlled entities which will continue to be measured under AASB 5. |
| AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (issued July 2008)<br><br>AASB 120 | Accounting for Government Grants and Disclosure of Government Assistance | Benefits of government loans at below market rates of interest are treated as government grants. Such loans are measured in accordance with AASB 139 and the benefit is determined as the difference between the initial carrying value of the loan under AASB 139 and the proceeds received.                                                                                                                                                                                                                                                                             | Periods commencing on or after 1 January 2009 | There will be no impact as these requirements are only required to be applied prospectively to government loans received in periods commencing on or after 1 July 2009.                                                                                                    |



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Adoption of new and revised standards (continued)

| AASB reference                                                                                                                                      | Title and Affected Standard(s):                              | Nature of Change                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Application date:                             | Impact on Initial Application                                                                                                                                                                                        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB 2009-5<br>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process (issued May 2009)<br><br>AASB 5   | Non-current Assets Held for Sale and Discontinued Operations | Clarifies that disclosures required for non-current assets (or disposal groups) classified as held for sale or discontinued operations are limited to those required by AASB 5 unless: <ul style="list-style-type: none"> <li>• Disclosures are specifically required for these assets by other AASBs; or</li> <li>• Assets and liabilities of a disposal group are not within the measurement requirements of AASB 5 and disclosures are required by other AASBs.</li> </ul> | Periods commencing on or after 1 January 2010 | There will be no impact as these requirements are only required to be applied prospectively to disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations.       |
| AASB 2009-5<br>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process (issued May 2009)<br><br>AASB 101 | Presentation of Financial Statements                         | Clarifies that terms of a liability that could, at the option of the counterparty, result in the liability being settled by the issue of equity instruments, do not affect its classification. This means that unless the terms of such liabilities require a transfer of cash or other assets within 12 months, they do not necessarily have to be classified as current liabilities.                                                                                        | Periods commencing on or after 1 January 2010 | Initial adoption of this amendment will have no impact as the entity does not have any current liabilities where the counterparty has the option to have the liabilities settled by the issue of equity instruments. |



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Adoption of new and revised standards (continued)

| AASB reference                                                                                                                            | Title and Affected Standard(s): | Nature of Change                                                                                                                                                             | Application date:                             | Impact on Initial Application                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process (issued May 2009) AASB 117 | Leases                          | Land can be classified as a finance lease for very long leases where the significant risks and rewards are effectively transferred, despite there being no transfer of title | Periods commencing on or after 1 January 2010 | Initial adoption of this amendment will have no impact as the entity has no long term leases for land.                                                                          |
| AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process (issued May 2009) AASB 136 | Impairment of Assets            | Clarifies that CGUs to which goodwill is allocated cannot be larger than an operating segment as defined in AASB 8 <i>Operating Segments</i> <u>before aggregation.</u>      | Periods commencing on or after 1 January 2010 | There will be no impact as these requirements are only required to be applied prospectively to goodwill impairment calculations for periods commencing on or after 1 July 2010. |

### (c) Statement of compliance

The financial report was authorised for issue on 30 September 2009.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Basis of consolidation

The consolidated financial statements comprise the separate financial statements of Australian Renewable Fuels Limited and its subsidiaries as at 30 June each year (the Group). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet.

### (e) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### *Impairment of goodwill and intangibles with indefinite useful lives:*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 13.

#### *Share-based payment transactions:*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black - Scholes model, using the assumptions detailed in Note 17.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black - Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 17.

#### *Impairment of property plant and equipment:*

Impairment of the manufacturing plant has been determined using the discounted cash flow method at the cash generating unit level which resulted in an impairment loss being recognised to reduce the carrying amount. The extent of the impairment has been disclosed in Note 12.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Critical accounting judgements and key sources of estimation uncertainty (continued)

#### *Deferred tax assets not recognised*

The Group records deferred tax assets to the extent that it expects to offset these amounts against future taxable income. The Group impaired the full amount of deferred tax assets in 2007 and in the current period has not recognised any deferred tax assets from the 2009 losses.

### (f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *(i) Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

#### *(ii) Rendering of services*

Revenue from the rendering of services is recognised by reference to the stage of completion of the contract.

#### *(iii) Interest income*

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

#### *(iv) Dividends*

Revenue is recognised when the Group's right to receive the payment is established.

#### *(v) Government Grants*

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 Largs Bay plant when that assets carrying value was identified as being impaired.

### (g) Borrowing costs

Borrowing costs are recognised as an expense when incurred except those that relate to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs - refer Note 1(g).

Finance leased assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### (i) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### (j) Trade and other receivables

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

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

#### (k) Inventories

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. Cost of purchased inventory is determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (l) Financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

#### (i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

#### (ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

#### (iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

### (m) Derecognition of financial assets and financial liabilities

#### (i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset, or
  - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Derecognition of financial assets and financial liabilities (continued)

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### *(ii) Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

#### (n) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

##### *(i) Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

The amount of the loss is recognised in profit or loss.

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) Impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

#### (ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

### (o) Foreign currency translation

Both the functional and presentation currency of Australian Renewable Fuels Limited and its Australian subsidiaries is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the foreign operations, American Renewable Fuels Inc, is United States dollars (US\$).

As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of Australian Renewable Fuels Limited at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

### (p) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (p) Income tax (continued)

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### *Tax consolidation legislation*

Australian Renewable Fuels Limited and its 100% owned Australian resident subsidiaries have implemented the tax consolidation legislation. Current and deferred tax amounts are accounted for in each individual entity as if each entity continued to act as a taxpayer on its own.

Australian Renewable Fuels Limited recognises both its own current and deferred tax amounts and those current tax liabilities, current tax assets and deferred tax assets arising from unused tax credits and unused tax losses which it has assumed from its controlled entities within the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts payable or receivable from or payable to other entities in the Group. Any difference between the amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) controlled entities in the tax consolidated group.

# **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

## **NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **(q) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### **(r) Property, plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Buildings 25-40 years
- Machinery 13-20 years
- Vehicles 5 years
- Furniture, fittings and equipment 3-8 years
- Leasehold improvements 10 years
- Leased plant and equipment 10-15 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

#### *(i) Impairment*

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (r) Property, plant and equipment (continued)

For plant and equipment, impairment losses are recognised in the income statement as a separate line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

#### *(ii) Derecognition and disposal*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

### (s) Intangible assets

#### *(i) Intangible assets acquired separately*

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

#### *(ii) Internally generated intangible assets – research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (s) Intangible assets (continued)

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following useful lives are used in the calculation of amortisation:

|                         |          |
|-------------------------|----------|
| Capitalised development | 5 years  |
| Licences                | 10 years |

#### *(iii) Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

#### (t) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(u) Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

**(v) Borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

**(w) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

**(x) Employee benefits**

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

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date, they are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

*(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. Consideration is given to the expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

*(iii) 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 reporting date are discounted to present value.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (y) Share-based payment transactions

##### *Equity settled transactions:*

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There is currently one plan in place to provide these benefits:

- the Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is 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, the expected dividend yield and the risk free interest rate for the term of the option.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Australian Renewable Fuels Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 6).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (z) 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.

### (aa) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### (ab) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

### (ac) Non current assets (or disposal groups) held for sale and discontinued operations

Non current assets (or disposal groups) are classified as held for sale if their carrying value amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying value and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits financial assets and land that are carried at fair value or cost and contractual rights under insurance contracts, which are specifically exempt from this requirement.

### (ad) 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.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 2: REVENUE AND EXPENSES**

|                                                                          | Consolidated     |                  | Parent         |               |
|--------------------------------------------------------------------------|------------------|------------------|----------------|---------------|
|                                                                          | 2009             | 2008             | 2009           | 2008          |
|                                                                          | \$               | \$               | \$             | \$            |
| <b>(a) Revenue from continuing operations</b>                            |                  |                  |                |               |
| Sale of goods                                                            | 1,928,507        | 5,231,781        | 328,449        | -             |
| Rental revenue                                                           | 77,991           | -                | -              | -             |
| Bank interest received                                                   | 17,179           | 80,236           | 10,860         | 75,824        |
|                                                                          | <u>2,023,677</u> | <u>5,312,017</u> | <u>339,309</u> | <u>75,824</u> |
| <b>(b) Other income</b>                                                  |                  |                  |                |               |
| Grant income                                                             | 4,500            | -                | -              | -             |
| Net gains on disposal of property, plant and equipment                   | -                | 26,716           | -              | 28,132        |
| Net foreign exchange gains                                               | 210,189          | -                | 210,189        | -             |
|                                                                          | <u>214,689</u>   | <u>26,716</u>    | <u>210,189</u> | <u>28,132</u> |
| <b>(c) Expenses</b>                                                      |                  |                  |                |               |
| Consulting                                                               | 263,281          | 390,917          | 263,281        | 390,917       |
| Impairment of property, plant and equipment (Note 12)                    | 1,296,000        | 26,380,724       | -              | -             |
| Finance charges payable under finance leases and hire purchase contracts | 6,908            | 9,227            | -              | -             |
| Interest expense                                                         | 92,922           | 249,127          | 45,386         | 228,416       |
| Write down of inventory (Note 11)                                        | 552,054          | -                | -              | -             |
| Depreciation of non-current assets (Note 12)                             | 4,005,991        | 1,520,059        | 53,648         | 74,523        |
| Write down of intangible assets                                          | -                | 18,333,286       | -              | 51,319,553    |
| Operating lease rental expense                                           | 113,565          | 103,365          | 21,697         | 52,947        |
| Share based payments expense                                             | 82,584           | 55,974           | 82,584         | 55,974        |
| Expired option expense written back                                      | -                | (832,386)        | -              | (832,386)     |
| Impairment losses – financial assets                                     |                  |                  |                |               |
| Trade receivables                                                        | 71,012           | -                | -              | -             |
| Inter-company loans                                                      | -                | -                | 6,854,578      | -             |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 3: INCOME TAX

|                                                                                                                                                              | Consolidated |              | Parent      |              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|-------------|--------------|
|                                                                                                                                                              | 2009         | 2008         | 2009        | 2008         |
|                                                                                                                                                              | \$           | \$           | \$          | \$           |
| <b>Income tax recognised in profit or loss</b>                                                                                                               |              |              |             |              |
| The major components of tax expense are:                                                                                                                     |              |              |             |              |
| Current tax expense/(income)                                                                                                                                 | -            | -            | -           | -            |
| Adjustments recognised in the current year in relation to the current tax of prior years                                                                     | -            | -            | -           | -            |
| Deferred tax expense/(income) relating to the origination and reversal of temporary differences                                                              | -            | 7,748,012    | -           | 7,689,070    |
| Benefit arising from previously unrecognised tax losses, tax credits or temporary differences of a prior period that is used to reduce:                      |              |              |             |              |
| - current tax expense                                                                                                                                        | -            | 7,750,000    | -           | 7,690,753    |
| - deferred tax expense                                                                                                                                       | -            | (1,988)      | -           | (1,735)      |
| Total tax expense/(income)                                                                                                                                   | -            | 7,748,012    | -           | 7,689,070    |
| Attributable to:                                                                                                                                             |              |              |             |              |
| Continuing operations                                                                                                                                        |              | 7,748,012    |             | 7,689,070    |
| Discontinued operations                                                                                                                                      |              | -            |             | -            |
| The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows: |              |              |             |              |
| Accounting profit before tax from continuing operations                                                                                                      | (9,495,938)  | (54,074,750) | (8,285,027) | (52,881,672) |
| Loss before tax from discontinued operations                                                                                                                 | 516,229      | -            | -           | -            |
| Accounting profit before income tax                                                                                                                          | (8,979,709)  | (54,074,750) | (8,285,027) | (52,881,672) |
| Income tax expense calculated at 30%                                                                                                                         | (2,693,912)  | (16,222,425) | (2,485,508) | (15,864,501) |
| Non-deductible expenses                                                                                                                                      | 779          | (850,561)    | 2,057,085   | (854,260)    |
| Share based payments and impairment charges                                                                                                                  | 24,775       | 13,000,609   | 24,775      | 15,412,658   |
| Temporary differences not recognised                                                                                                                         | 441,722      | -            | (323,788)   | -            |
| Adjustment for permanent differences in subsidiary companies (tax consolidated group):                                                                       |              |              |             | (2,153,860)  |
| Deferred tax asset written off to income statement                                                                                                           | -            | 7,748,012    |             | 7,689,018    |
| Current year tax losses not recognised as deferred tax asset                                                                                                 | 2,226,636    | 4,072,377    | 727,436     | 3,459,963    |
| Income tax expense reported in the consolidated income statement                                                                                             | -            | 7,748,012    | -           | 7,689,018    |
| Income tax attributable to discontinued operations                                                                                                           | -            | -            | -           | -            |

# **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

## **NOTE 3: INCOME TAX (continued)**

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting period.

|                                                                                                          | Consolidated |      | Parent |      |
|----------------------------------------------------------------------------------------------------------|--------------|------|--------|------|
|                                                                                                          | 2009         | 2008 | 2009   | 2008 |
|                                                                                                          | \$           | \$   | \$     | \$   |
| <b>Income tax recognised directly in equity</b>                                                          |              |      |        |      |
| The following current and deferred amounts were charged/(credited) directly to equity during the period: |              |      |        |      |
| Current tax                                                                                              | -            | -    | -      | -    |
| Deferred tax                                                                                             | -            | -    | -      | -    |
|                                                                                                          | -            | -    | -      | -    |

The Group has tax losses arising in Australia of \$13,629,540 (2008: \$8,589,176) that are available for offset against future taxable profits of the companies in which the losses arose.

At 30 June 2009, there is an unrecognised deferred income tax liability of \$3,692 (2008: \$nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associate or joint venture, as the Group has no liability for additional taxation should such amounts be remitted.

## **Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

|                                  | Consolidated |            | Parent     |            |
|----------------------------------|--------------|------------|------------|------------|
|                                  | 2009         | 2008       | 2009       | 2008       |
|                                  | \$           | \$         | \$         | \$         |
| Deductible temporary differences | 11,617,271   | 9,915,532  | 115,402    | 9,915,532  |
| Tax losses Australia             | 13,629,540   | 10,960,080 | 13,783,788 | 10,960,080 |
| Tax losses US                    | -            | 612,414    | -          | -          |
|                                  | 25,246,811   | 21,488,026 | 13,899,190 | 20,875,612 |

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits thereof.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 3: INCOME TAX (continued)

#### Tax consolidation

Australian Renewable Fuels Limited and its 100% owned Australian resident subsidiaries implemented the tax consolidation legislation. The accounting policy for the implementation of the tax consolidation legislation is set out in note 1(p).

The entities in the tax consolidated group entered into a tax sharing agreement on adoption of the tax consolidation legislation which, in the opinion of the directors, limits the joint and several liability of the controlled entities in the case of a default by the head entity, Australian Renewable Fuels Limited.

Australian Renewable Fuels and its controlled entities have entered into a tax funding agreement under which the 100% owned Australian resident subsidiaries compensate Australian Renewable Fuels Limited for all current tax payable assumed and are compensated by Australian Renewable Fuels Limited for any current tax receivable and deferred tax assets which relate to unused tax credits or unused tax losses that, under the tax consolidation legislation, are transferred to Australian Renewable Fuels Limited. These amounts are determined by reference to the amounts which are recognised in the financial statements of each entity in the tax consolidated group.

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 distribution of current taxes to allocate to members to the tax consolidation Group.

### NOTE 4: SEGMENT INFORMATION

#### Description of business segments

The Group's primary segment reporting format is geographical segments as the Group's risks and rates of return are affected predominantly by the location of products and services produced.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing the biodiesel plants at Largs Bay, South Australia, Picton, Western Australia, Corporate Head Office, Perth, Western Australia.

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



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 4: SEGMENT INFORMATION (continued)

### Geographical segments

The Group's revenue from external customers and information about its segment assets by geographical location is detailed below:

|                               | Segment revenues |           | Segment assets |            | Segment liabilities |           |
|-------------------------------|------------------|-----------|----------------|------------|---------------------|-----------|
|                               | 2009             | 2008      | 2009           | 2008       | 2009                | 2008      |
|                               | \$               | \$        | \$             | \$         | \$                  | \$        |
| Western Australia (Corporate) | 221,049          | 103,956   | 992,488        | 2,156,909  | 1,828,092           | 906,350   |
| Western Australia (Picton)    | 944,153          | 3,029,053 | 2,904,376      | 5,710,482  | 1,006,274           | 930,685   |
| South Australia (Largs Bay)   | 1,073,164        | 2,205,724 | 1,597,518      | 6,013,297  | 348,432             | 444,250   |
| USA                           | -                | -         | -              | 224,213    | 38,566              | 932,676   |
| Total                         | 2,238,366        | 5,338,733 | 5,494,382      | 14,104,901 | 3,221,364           | 3,213,961 |

| Segment revenues<br>Year ended 30 June<br>2009 | Western<br>Australia<br>(Corporate)<br>\$ | Western<br>Australia<br>(Picton)<br>\$ | South Australia<br>(Largs Bay)<br>\$ | USA<br>\$ | Total<br>\$ |
|------------------------------------------------|-------------------------------------------|----------------------------------------|--------------------------------------|-----------|-------------|
| Sales to external customers                    | 339,309                                   | 939,653                                | 744,715                              | -         | 2,023,677   |
| Inter-segment sales                            | -                                         | -                                      | 328,449                              | -         | 328,449     |
| Total sales                                    | 339,309                                   | 939,653                                | 1,073,164                            | -         | 2,352,126   |
| Other revenues                                 | 210,189                                   | 4,500                                  | -                                    | -         | 214,689     |
| Total segment revenue                          | 549,498                                   | 944,152                                | 1,057,383                            | -         | 2,566,815   |
| Inter-segment<br>Eliminations                  |                                           |                                        |                                      |           | (328,449)   |
| Total consolidated<br>revenue                  |                                           |                                        |                                      |           | 2,238,366   |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 4: SEGMENT REPORTING (continued)**

| <b>Segment revenues</b>                          | Western<br>Australia<br>(Corporate) | Western<br>Australia<br>(Picton) | South Australia<br>(Largs Bay) | USA     | Total        |
|--------------------------------------------------|-------------------------------------|----------------------------------|--------------------------------|---------|--------------|
| <b>Year ended 30 June 2008</b>                   | \$                                  | \$                               | \$                             | \$      | \$           |
| Sales to external customers                      | 80,236                              | 3,025,895                        | 2,205,886                      | -       | 5,312,017    |
| Inter-segment sales                              | 1,672,556                           | -                                | 141,564                        | -       | 1,814,120    |
| Total sales                                      | 1,752,792                           | 3,025,895                        | 2,347,450                      | -       | 7,126,137    |
| Other revenues                                   | 23,719                              | 3,159                            | (162)                          | -       | 26,716       |
| Total segment revenue                            | 1,776,511                           | 3,029,054                        | 2,347,288                      | -       | 7,152,853    |
| Inter-segment Eliminations                       |                                     |                                  |                                |         | (1,814,120)  |
| Total consolidated revenue                       |                                     |                                  |                                |         | 5,338,733    |
| <b>Segment result</b>                            | Western<br>Australia<br>(Corporate) | Western<br>Australia<br>(Picton) | South Australia<br>(Largs Bay) | USA     | Total        |
| <b>Year ended 30 June 2009</b>                   | \$                                  | \$                               | \$                             | \$      | \$           |
| <b>Continuing operations</b>                     |                                     |                                  |                                |         |              |
| Segment result                                   | (8,285,028)                         | (3,233,071)                      | (4,718,829)                    | -       | (16,236,928) |
| Income tax expense                               |                                     |                                  |                                |         | -            |
| Inter-segment eliminations                       |                                     |                                  |                                |         | 6,740,990    |
| Loss for the year                                |                                     |                                  |                                |         | (9,495,938)  |
| Loss attributable to minority interest           |                                     |                                  |                                | -       | -            |
| Loss for the year from continuing operations     |                                     |                                  |                                | -       | (9,495,938)  |
| <b>Discontinued operations</b>                   |                                     |                                  |                                |         |              |
| Segment result                                   | -                                   | -                                | -                              | 712,822 | 712,822      |
| Inter-segment eliminations                       |                                     |                                  |                                |         | (196,593)    |
| Income tax expense                               |                                     |                                  |                                |         | -            |
| Profit for the year from discontinued operations |                                     |                                  |                                |         | 516,229      |
| Loss for the year                                |                                     |                                  |                                |         | (8,979,709)  |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 4: SEGMENT REPORTING (continued)**

| <b>Segment result<br/>Year ended 30 June<br/>2008</b>                 | Western<br>Australia<br>(Corporate) | Western<br>Australia<br>(Picton) | South Australia<br>(Largs Bay) | USA         | Total        |
|-----------------------------------------------------------------------|-------------------------------------|----------------------------------|--------------------------------|-------------|--------------|
| <b>Continuing operations</b>                                          | \$                                  | \$                               | \$                             | \$          | \$           |
| Segment result                                                        | (13,295,273)                        | (18,300,172)                     | (13,472,329)                   | (5,727,628) | (50,795,402) |
| Income tax expense                                                    |                                     |                                  |                                |             | (7,748,012)  |
| Loss for the year                                                     |                                     |                                  |                                |             | (58,543,414) |
| Loss attributable to minority interest                                |                                     |                                  |                                | -           | 8,229,319    |
| Loss for the year from continuing operations                          |                                     |                                  |                                | -           | (50,314,095) |
| <b>Discontinued operations</b>                                        |                                     |                                  |                                |             |              |
| Segment result                                                        | -                                   | -                                | -                              | (3,279,348) | (3,279,348)  |
| Inter-segment eliminations                                            |                                     |                                  |                                |             | -            |
| Income tax expense                                                    |                                     |                                  |                                |             | -            |
| Loss for the year from discontinued operations                        |                                     |                                  |                                |             | (3,279,348)  |
| Loss for the year                                                     |                                     |                                  |                                |             | (53,593,443) |
| <b>Segment assets and liabilities<br/>Year ended 30 June<br/>2009</b> | Western<br>Australia<br>(Corporate) | Western<br>Australia<br>(Picton) | South Australia<br>(Largs Bay) | USA         | Total        |
|                                                                       | \$                                  | \$                               | \$                             | \$          | \$           |
| Segment assets                                                        | 992,489                             | 2,904,376                        | 1,597,517                      | -           | 5,494,382    |
| Segment liabilities                                                   | 1,828,092                           | 1,006,274                        | 405,776                        | 880,702     | 4,120,844    |
| Inter-segment eliminations                                            |                                     |                                  |                                |             | (899,480)    |
| Consolidated liabilities                                              |                                     |                                  |                                |             | 3,221,364    |
| <b>Segment assets and liabilities<br/>Year ended 30 June<br/>2008</b> | Western<br>Australia<br>(Corporate) | Western<br>Australia<br>(Picton) | South Australia<br>(Largs Bay) | USA         | Total        |
|                                                                       | \$                                  | \$                               | \$                             | \$          | \$           |
| Segment assets                                                        | 2,156,909                           | 5,710,482                        | 6,013,297                      | 224,213     | 14,104,901   |
| Segment liabilities                                                   | 1,839,026                           | 930,685                          | 444,250                        | 932,676     | 4,146,637    |
| Inter-segment eliminations                                            |                                     |                                  |                                |             | (932,676)    |
| Consolidated liabilities                                              |                                     |                                  |                                |             | 3,213,961    |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 5: DISCONTINUED OPERATIONS AND NON CURRENT ASSETS HELD FOR SALE

### (a) Non-current assets classified as held for sale

| Non-current assets held for sale: | Consolidated |      | Parent  |      |
|-----------------------------------|--------------|------|---------|------|
|                                   | 2009         | 2008 | 2009    | 2008 |
|                                   | \$           | \$   | \$      | \$   |
| Land                              | 678,985      | -    | 678,985 | -    |
|                                   | 678,985      | -    | 678,985 | -    |

In January 2009, the directors of the company decided to sell the land situated at the Picton site in Western Australia. Negotiations of the final deed of sale enable the company to retain control of the portion of land on which the Picton plant is situated. The land sale was settled during September 2009 and the details have been included in Note 21.

### (b) Discontinued operations

On 31 October 2008, American Renewable Fuels Inc ("ARF Inc"), a US based subsidiary of the company assigned all the units held by it in American Renewable Fuels LLC ("ARF LLC") in exchange for the surrender of the Preferred Shares held by external investors in ARF Inc and the assumption by ARF LLC of certain liabilities of ARF Inc. ARF LLC is the entity attempting to secure financing for the development of the biodiesel project at Clovis, New Mexico.

The results of the discontinued operation which have been included in the income statement are as follows:

|                                                       | Consolidated |             |
|-------------------------------------------------------|--------------|-------------|
|                                                       | 2009         | 2008        |
|                                                       | \$           | \$          |
| Revenue                                               | -            | -           |
| Expenses                                              | (310,141)    | (3,279,348) |
| Loss before income tax                                | (310,141)    | (3,279,348) |
| Profit recognised on the re-measurement to fair value | 826,440      | -           |
| Profit/(loss) before tax from discontinued operations | 516,299      | (3,279,348) |
| Tax income                                            | -            | -           |
| Profit for the year from discontinued operations      | 516,229      | (3,279,348) |
| Cash flows from discontinued operations:              |              |             |
| Net cash flows from operating activities              | 328,017      | (971,272)   |
| Net cash flows from investing activities              | 56,766       | (1,043,348) |
| Net cash flows from financing activities              | (297,076)    | 2,139,781   |
| Net cash flows                                        | 87,707       | 125,161     |

# **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

## **NOTE 5: DISCONTINUED OPERATIONS (continued)**

The major classes of assets and liabilities of comprising the operations classified as held for sale at disposal date are as follows:

|                                          | 31 October 2008    |
|------------------------------------------|--------------------|
|                                          | \$                 |
| <b>ASSETS</b>                            |                    |
| Intangible                               | 529,000            |
| Property, plant and equipment            | 73,668             |
| Trade and other receivables              | 113,340            |
| Cash and short-term deposits             | 292,560            |
|                                          | <u>1,008,568</u>   |
| <b>LIABILITIES</b>                       |                    |
| Trade creditors and payables             | (1,335,964)        |
| Interest-bearing liabilities             | (500,163)          |
|                                          | <u>(1,836,127)</u> |
| Net assets disposed of                   | <u>(827,559)</u>   |
| <br>                                     |                    |
| Cash and short term deposits             | -                  |
| Present value of deferred sales proceeds | -                  |
| Total disposal consideration             | -                  |
| Less: net liabilities disposed of        | 827,559            |
| Gain on disposal after income tax        | 827,559            |
| Loss after income tax                    | (310,141)          |
| Foreign exchange differences             | (1,119)            |
| Gain on disposal after income tax        | <u>516,229</u>     |

The proceeds on the sale exceeded the book value of the related net assets and accordingly no impairment losses were recognised on the reclassification of these operations as held for sale.

### *Net cash inflow on disposal:*

|                                                                |                  |
|----------------------------------------------------------------|------------------|
| Cash and cash equivalents consideration received or receivable | -                |
| Net cash and cash equivalents disposed of                      | <u>(292,560)</u> |
| Net cash outflow on disposal of subsidiary                     | <u>(292,560)</u> |



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 6: EARNINGS/(LOSS) PER SHARE**

|                                                                                                                                           | Consolidated    |                 |
|-------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
|                                                                                                                                           | 2009            | 2008            |
|                                                                                                                                           | Cents per share | Cents per share |
| <i>(a) Basic earnings/(loss) per share:</i>                                                                                               |                 |                 |
| From continuing operations attributable to the ordinary equity holders of the company                                                     | (3.15)          | (30.64)         |
| From discontinued operations                                                                                                              | 0.17            | (1.72)          |
| Total basic loss per share attributable to the ordinary equity holders of the company                                                     | (2.98)          | (32.36)         |
| <i>(b) Diluted earnings/(loss) per share:</i>                                                                                             |                 |                 |
| From continuing operations attributable to the ordinary equity holders of the company                                                     | (3.15)          | (30.64)         |
| From discontinued operations                                                                                                              | 0.17            | (1.72)          |
| Total diluted loss per share attributable to the ordinary equity holders of the company                                                   | (2.98)          | (32.36)         |
| <i>(c) Basic earnings/(loss) per share</i>                                                                                                |                 |                 |
| The profit/(loss) and weighted average number of ordinary shares used in the calculation of basic earnings/(loss) per share is as follow: |                 |                 |
|                                                                                                                                           | \$              | \$              |
| Loss from continuing operations(refer (i))                                                                                                | (9,495,938)     | (58,543,414)    |
| Profit from discontinued operations (refer Note 5)                                                                                        | 516,229         | (3,279,348)     |
|                                                                                                                                           | (8,979,709)     | (61,822,762)    |
|                                                                                                                                           | NUMBER          | NUMBER          |
| Weighted average number of ordinary shares for the purposes of basic earnings per share                                                   | 301,562,261     | 193,257,073     |
| <i>(i) Loss used in the calculation of total basic earnings per share reconciles to net profit in the income statement as follows:</i>    |                 |                 |
|                                                                                                                                           | \$              | \$              |
| Net loss attributable to the equity holders of the company                                                                                | (8,979,709)     | (53,593,443)    |
| Less minority interest                                                                                                                    | -               | (8,229,319)     |
| Loss used in the calculation of basic loss per share                                                                                      | (8,979,709)     | (61,822,762)    |
| (Profit)/loss for the period from discontinued operation                                                                                  | (516,229)       | 3,279,348       |
| Loss used in the calculation of basic loss per share from continuing operations                                                           | (9,495,938)     | (58,543,414)    |

The options have not been included in the calculation of the diluted earnings per share as they do not exhibit the characteristics that make them dilutive.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 7: DIVIDENDS

During the year no dividends were paid or proposed (2008: nil)

## NOTE 8: CASH AND CASH EQUIVALENTS

|                          | Consolidated |           | Parent |           |
|--------------------------|--------------|-----------|--------|-----------|
|                          | 2009         | 2008      | 2009   | 2008      |
|                          | \$           | \$        | \$     | \$        |
| Cash at bank and on hand | 5,427        | 1,310,923 | 5,250  | 1,162,351 |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

### (i) Reconciliation to Cash Flow Statement:

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

|                           | \$        | \$        | \$      | \$        |
|---------------------------|-----------|-----------|---------|-----------|
| Cash and cash equivalents | 5,427     | 1,310,923 | 5,250   | 1,162,351 |
| Bank overdraft (Note 14)  | (610,484) | -         | (4,349) | -         |
|                           | (605,057) | 1,310,923 | 901     | 1,162,351 |

### (ii) Financing facilities

Unsecured bank overdraft facility, reviewed annually and payable on demand:

|               |         |         |       |         |
|---------------|---------|---------|-------|---------|
| Amount used   | 610,484 | 335,000 | 4,349 | 335,000 |
| Amount unused | 139,516 | -       | -     | -       |
|               | 750,000 | 335,000 | 4,349 | 335,000 |



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 8: CASH AND CASH EQUIVALENTS (continued)**

|                                                                                                   | Consolidated |              | Parent      |              |
|---------------------------------------------------------------------------------------------------|--------------|--------------|-------------|--------------|
|                                                                                                   | 2009         | 2008         | 2009        | 2008         |
|                                                                                                   | \$           | \$           | \$          | \$           |
| <b>(iii) Reconciliation of profit for the year to net cash flows from operating activities</b>    |              |              |             |              |
| Loss for the year                                                                                 | (8,979,709)  | (61,822,762) | (8,285,027) | (60,570,690) |
| (Gain)/loss on sale or disposal of non-current assets                                             | 56,058       | (26,716)     | -           | (28,132)     |
| (Gain)/loss on disposal of business                                                               | (826,440)    | -            | -           | -            |
| Depreciation of property plant and equipment                                                      | 4,005,991    | 1,528,082    | 53,648      | 74,523       |
| Equity settled share based payment                                                                | 82,584       | (776,412)    | 82,586      | (776,412)    |
| Impairment of doubtful debts                                                                      | 71,012       | -            | -           | -            |
| Impairment of non-current assets                                                                  | 1,296,000    | 52,464,010   | 6,854,578   | 59,010,305   |
| Change in net assets and liabilities, net of effects from acquisition and disposal of businesses: |              |              |             |              |
| (Increase)/decrease in assets:                                                                    |              |              |             |              |
| Current receivables                                                                               | 878,828      | 875,899      | 212,603     | 539,068      |
| Current inventories                                                                               | 1,027,439    | 2,356,811    | -           | -            |
| Other current assets                                                                              | (671,123)    | -            | (68,123)    | -            |
| Non-current receivables                                                                           | -            | -            | (1,030,859) | -            |
| Increase/(decrease) in liabilities:                                                               |              |              |             |              |
| Current payables                                                                                  | 667,653      | (1,443,310)  | 69,238      | (978,297)    |
| Other current liabilities                                                                         | -            | (1,988)      | -           | -            |
| Non-current provisions                                                                            | -            | 400,528      | -           | -            |
| Other non-current liabilities                                                                     | -            | -            | -           | (1,735)      |
| Net cash (used in) operating activities                                                           | (2,391,707)  | (6,445,858)  | (2,111,356) | (2,731,370)  |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 9: CURRENT TRADE AND OTHER RECEIVABLES

|                                            | Consolidated |           | Parent  |         |
|--------------------------------------------|--------------|-----------|---------|---------|
|                                            | 2009         | 2008      | 2009    | 2008    |
|                                            | \$           | \$        | \$      | \$      |
| Trade receivables                          | 248,287      | 1,240,115 | 57,344  | 269,947 |
| Provision for impairment of doubtful debts | (71,012)     | -         | -       | -       |
| Prepaid insurance                          | 204,315      | 136,192   | 204,315 | 136,192 |
|                                            | 381,590      | 1,376,307 | 261,659 | 406,139 |

### Aging of past due but not impaired

|               | Consolidated |      | Parent |      |
|---------------|--------------|------|--------|------|
|               | 2009         | 2008 | 2009   | 2008 |
|               | \$           | \$   | \$     | \$   |
| 90 – 120 days | 81,717       | 792  | 57,344 | -    |
| Total         | 81,717       | 792  | 57,344 | -    |

Trade receivables are non-interest bearing and are generally on 15 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.

On 13 March 2009, South Australian Farmer Fuels Pty Ltd ("SAFF"), one of the Group's major customers went into administration. No allowance has been made against any amounts in relation to tank rental amounts receivable from SAFF and the company believes that the amount will be fully recovered pending negotiations with the Administrator in relation to product that is held on the company's premises for which the company has a secured lien under South Australian law.

## NOTE 10: OTHER FINANCIAL ASSETS

|                                             | Consolidated |      | Parent       |              |
|---------------------------------------------|--------------|------|--------------|--------------|
|                                             | 2009         | 2008 | 2009         | 2008         |
|                                             | \$           | \$   | \$           | \$           |
| <b>Non-Current</b>                          |              |      |              |              |
| <i>Loans to related parties: (i)</i>        |              |      |              |              |
| Australian Renewable Fuels Adelaide Pty Ltd | -            | -    | 28,414,708   | 28,311,249   |
| Australian Renewable Fuels Picton Pty Ltd   | -            | -    | 30,383,114   | 29,858,711   |
| ARF Global Pty Ltd                          | -            | -    | 6,513        | 6,513        |
| ASG Analytik Pty Ltd                        | -            | -    | 870,107      | 805,029      |
| Shelley Nominees                            | -            | -    | 6,205        | 6,205        |
| American Renewable Fuels Inc                | -            | -    | 842,136      | 504,217      |
| Less provision for impairment               | -            | -    | (57,471,514) | (50,616,936) |
|                                             | -            | -    | 3,051,269    | 8,874,988    |
| <i>Investments carried at cost: (ii)</i>    |              |      |              |              |
| Investments in subsidiaries (Note 20)       | -            | -    | 9            | 9            |
|                                             | -            | -    | 3,051,278    | 8,874,997    |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 10: OTHER FINANCIAL ASSETS (continued)

- (i) These loans are non-interest bearing and there is no fixed date of repayment.
- (ii) The investments are carried at their approximate fair values less impairment as the fair value cannot be reliably measured.

Movements in the provision for impairment of receivables are as follows:

|                                                          | Parent              |                     |
|----------------------------------------------------------|---------------------|---------------------|
|                                                          | 2009                | 2008                |
|                                                          | \$                  | \$                  |
| As at 1 July                                             | (50,616,936)        | (11,000,000)        |
| Provision for impairment recognised during the year      | (6,854,578)         | (39,616,936)        |
| Receivables written off during the year as uncollectible | -                   | -                   |
|                                                          | <u>(57,471,514)</u> | <u>(50,616,936)</u> |

The creation and release of the provision for impaired receivables from related parties has been included in "impairment of inter-company loans" in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

## NOTE 11: INVENTORIES

|                                          | Consolidated   |                  | Parent   |          |
|------------------------------------------|----------------|------------------|----------|----------|
|                                          | 2009           | 2008             | 2009     | 2008     |
|                                          | \$             | \$               | \$       | \$       |
| Raw materials – at cost                  | 38,836         | 796,953          | -        | -        |
| Consumables – at cost                    | 180,966        | 600,594          | -        | -        |
| Finished goods – at net realisable value | 208,723        | 58,417           | -        | -        |
|                                          | <u>428,525</u> | <u>1,455,964</u> | <u>-</u> | <u>-</u> |

The amount required to write down the finished goods inventory at 30 June 2009 from cost to net realisable value is \$552,054 (2008: nil).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 12: PROPERTY PLANT AND EQUIPMENT**

|                                                                 | Freehold<br>land<br>\$ | Consolidated<br>Plant<br>and<br>equipment<br>\$ | Total<br>\$ | Freehold<br>land<br>\$ | Parent<br>Plant<br>and<br>equipment<br>\$ | Total<br>\$ |
|-----------------------------------------------------------------|------------------------|-------------------------------------------------|-------------|------------------------|-------------------------------------------|-------------|
| <b>Year ended 30 June 2009</b>                                  |                        |                                                 |             |                        |                                           |             |
| At 1 July 2008, net of accumulated depreciation and impairment  | 678,985                | 9,282,722                                       | 9,961,707   | 678,985                | 157,587                                   | 836,572     |
| Additions                                                       | -                      | 68,892                                          | 68,892      | -                      | -                                         | -           |
| Disposals                                                       | -                      | (49,768)                                        | (49,768)    | -                      | -                                         | -           |
| Land reclassified as held for sale (Note 5)                     | (678,985)              | -                                               | (678,985)   | (678,985)              | -                                         | (678,985)   |
| Impairment                                                      | -                      | (1,296,000)                                     | (1,296,000) | -                      | -                                         | -           |
| Depreciation charge for the year                                | -                      | (4,005,991)                                     | (4,005,991) | -                      | (53,650)                                  | (53,650)    |
| At 30 June 2009, net of accumulated depreciation and impairment | -                      | 3,999,855                                       | 3,999,855   | -                      | 103,937                                   | 103,937     |
| <b>At 1 July 2008</b>                                           |                        |                                                 |             |                        |                                           |             |
| Cost or fair value                                              | 678,985                | 13,617,092                                      | 14,296,077  | 678,985                | 344,038                                   | 1,023,023   |
| Accumulated depreciation and impairment                         | -                      | (4,334,370)                                     | (4,334,370) | -                      | (186,451)                                 | (186,451)   |
| Net carrying amount                                             | 678,985                | 9,282,722                                       | 9,961,707   | 678,985                | 157,587                                   | 836,572     |
| <b>At 30 June 2009</b>                                          |                        |                                                 |             |                        |                                           |             |
| Cost or fair value                                              | -                      | 13,264,123                                      | 13,264,123  | -                      | 344,038                                   | 344,038     |
| Accumulated depreciation and impairment                         | -                      | (9,264,268)                                     | (9,264,268) | -                      | (240,101)                                 | (240,101)   |
| Net carrying amount                                             | -                      | 3,999,855                                       | 3,999,855   | -                      | 103,937                                   | 103,937     |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 12: PROPERTY PLANT AND EQUIPMENT (continued)**

|                                                                 | Freehold<br>land<br>\$ | Consolidated<br>Plant<br>and<br>equipment<br>\$ | Total<br>\$  | Freehold land<br>\$ | Parent<br>Plant<br>and<br>equipment<br>\$ | Total<br>\$ |
|-----------------------------------------------------------------|------------------------|-------------------------------------------------|--------------|---------------------|-------------------------------------------|-------------|
| <b>Year ended 30 June 2008</b>                                  |                        |                                                 |              |                     |                                           |             |
| At 1 July 2007, net of accumulated depreciation and impairment  | 678,985                | 35,120,815                                      | 35,799,800   | 678,985             | 248,821                                   | 927,806     |
| Additions                                                       | -                      | 1,935,116                                       | 1,935,116    | -                   | 2,321                                     | 2,321       |
| Disposals                                                       | -                      | (282,179)                                       | (282,179)    | -                   | (19,032)                                  | (19,032)    |
| Maintenance spares capitalised                                  | -                      | 417,776                                         | 417,776      | -                   | -                                         | -           |
| Impairment                                                      | -                      | (26,380,724)                                    | (26,380,724) | -                   | -                                         | -           |
| Depreciation charge for the year                                | -                      | (1,528,082)                                     | (1,528,082)  | -                   | (74,523)                                  | (74,523)    |
| Foreign currency exchange differences                           | -                      | -                                               | -            | -                   | -                                         | -           |
| At 30 June 2008, net of accumulated depreciation and impairment | 678,985                | 9,282,722                                       | 9,961,707    | 678,985             | 157,587                                   | 836,572     |
| <b>At 1 July 2007</b>                                           |                        |                                                 |              |                     |                                           |             |
| 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                | 35,120,185                                      | 35,799,800   | 678,985             | 248,821                                   | 927,806     |
| <b>At 30 June 2008</b>                                          |                        |                                                 |              |                     |                                           |             |
| Cost or fair value                                              | 678,985                | 13,617,092                                      | 14,296,077   | 678,985             | 344,038                                   | 1,023,023   |
| Accumulated depreciation and impairment                         | -                      | (4,334,370)                                     | (4,334,370)  | -                   | (186,451)                                 | (186,451)   |
| Net carrying amount                                             | 678,985                | 9,282,722                                       | 9,961,707    |                     | 157,587                                   | 836,572     |

**Useful life**

The useful life of the assets was estimated as follows for both 2008 and 2009:

|                                                         |          |
|---------------------------------------------------------|----------|
| Manufacturing plant, equipment and industrial buildings | 20 years |
| Motor vehicles                                          | 8 years  |
| Office equipment                                        | 7 years  |
| Office furniture                                        | 7 years  |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 12: PROPERTY PLANT AND EQUIPMENT (continued)

#### Impairment of property plant and equipment

During the year, recoverable amount was established for operating plants at both the Picton and Largs Bay sites. An impairment loss of \$1,296,000 in total was recognised to reduce the carrying amount of those assets to recoverable amount. The recoverable amount estimation was based on discounted cash flows and was determined at the cash generating unit level. No independent valuation of the plant was available for use in the determination of fair value, based on recent transactions for similar assets within the same industry.

#### Carrying value of land

It is the company's policy to carry land at cost. However, the company has determined the fair value of the land by reference to the sale contract recently entered into by the directors of the company for the sale of the land at the Picton site for \$3,000,000 plus GST.

#### Assets under finance leases

The carrying amount for assets held under finance leases and hire purchase contracts at 30 June 2009 is \$70,049 (2008: \$85,395). There were no additions during the year of assets under finance lease or hire purchase contracts. The leased asset is pledged as security for the related finance lease or hire purchase liability.

### NOTE 13: INTANGIBLE ASSETS

| Consolidated entity                            | Capital<br>development<br>costs | Biodiesel royalty | Patents and<br>other rights | Total        |
|------------------------------------------------|---------------------------------|-------------------|-----------------------------|--------------|
|                                                | \$                              | \$                | \$                          | \$           |
| <b>Gross carrying amount</b>                   |                                 |                   |                             |              |
| Balance at 1 July 2007                         | 3,283,800                       | 22,285,711        | 18,363,869                  | 43,933,380   |
| Additions                                      | -                               | -                 | 151,334                     | 151,334      |
| <b>Balance at 1 July 2008</b>                  | 3,283,800                       | 22,285,711        | 18,515,203                  | 44,084,714   |
| Additions                                      | -                               | -                 | -                           | -            |
| <b>Balance at 30 June 2009</b>                 | 3,283,800                       | 22,285,711        | 18,515,203                  | 44,084,714   |
| <b>Accumulated amortisation and impairment</b> |                                 |                   |                             |              |
| Balance at 1 July 2007                         | (3,283,800)                     | (22,285,711)      | (181,917)                   | (25,751,428) |
| Impairment expense                             | -                               | -                 | (18,333,286)                | (18,333,286) |
| <b>Balance at 1 July 2008</b>                  | (3,283,800)                     | (22,285,711)      | (18,515,203)                | (44,084,714) |
| Impairment expense                             | -                               | -                 | -                           | -            |
| <b>Balance at 30 June 2009</b>                 | (3,283,800)                     | (22,285,711)      | (18,515,203)                | (44,084,714) |
| <b>Net book value</b>                          |                                 |                   |                             |              |
| As at 30 June 2008                             | -                               | -                 | -                           | -            |
| As at 30 June 2009                             | -                               | -                 | -                           | -            |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 13: INTANGIBLE ASSETS (continued)**

| Parent entity                                  | Capital<br>development<br>costs | Biodiesel royalty | Patents and<br>other rights | Total       |
|------------------------------------------------|---------------------------------|-------------------|-----------------------------|-------------|
|                                                | \$                              | \$                | \$                          | \$          |
| <b>Gross carrying amount</b>                   |                                 |                   |                             |             |
| Balance at 1 July 2007                         | 3,283,800                       | -                 | 641,797                     | 3,925,597   |
| Additions                                      | -                               | -                 | -                           | -           |
| <b>Balance at 1 July 2008</b>                  | 3,283,800                       | -                 | 641,797                     | 3,925,597   |
| Additions                                      | -                               | -                 | -                           | -           |
| <b>Balance at 30 June 2009</b>                 | 3,283,800                       | -                 | 641,797                     | 3,925,597   |
| <b>Accumulated amortisation and impairment</b> |                                 |                   |                             |             |
| Balance at 1 July 2007                         | (3,283,800)                     | -                 | (181,917)                   | (3,465,717) |
| Impairment expense                             | -                               | -                 | (459,880)                   | (459,880)   |
| <b>Balance at 1 July 2008</b>                  | (3,283,800)                     | -                 | (641,797)                   | (3,925,597) |
| Impairment expense                             | -                               | -                 | -                           | -           |
| <b>Balance at 30 June 2009</b>                 | (3,283,800)                     | -                 | (641,797)                   | (3,925,597) |
| <b>Net book value</b>                          |                                 |                   |                             |             |
| As at 30 June 2008                             | -                               | -                 | -                           | -           |
| As at 30 June 2009                             | -                               | -                 | -                           | -           |

In the June 2008 financial year, the assessment of recoverable amount resulted in an impairment loss being recognised in relation to the company's Energea NAFTA patent rights. The impairment loss represents the write down of those intangible assets to fair value less the cost to sell. The impairment loss has been recognised in the income statement and the recoverable amount was based on the fair value less cost to sell and was determined at the cash generating unit level. The cash generating unit consists of the plant and equipment at both the Picton and Largs Bay sites.

No impairment loss was recognised for continuing operations in the 2009 financial year.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 14: TRADE AND OTHER PAYABLES

|                                  | Consolidated     |                  | Parent         |                |
|----------------------------------|------------------|------------------|----------------|----------------|
|                                  | 2009             | 2008             | 2009           | 2008           |
|                                  | \$               | \$               | \$             | \$             |
| <b>Current</b>                   |                  |                  |                |                |
| Trade payables (i)               | 1,540,439        | 2,721,901        | 792,781        | 747,350        |
| Bank overdrafts (ii)             | 610,484          | -                | 4,349          | -              |
| Accrued staff leave entitlements | 53,242           | 39,562           | 30,961         | 7,154          |
|                                  | <u>2,204,165</u> | <u>2,761,463</u> | <u>828,091</u> | <u>754,504</u> |
| <b>Non current</b>               |                  |                  |                |                |
| Lease liability                  | 17,199           | 52,498           | -              | -              |

- (i) Trade payables are non-interest bearing and are normally settled on 5-60 day terms.
- (ii) Financing facilities have been negotiated with HSBC Bank Australia Limited. The bank facilities are secured by a first registered fixed and floating charge over the Group's assets and cross guarantee and indemnity given by the Group. These facilities are available on a group basis. Details of the available facilities have been set out in Note 15.

Information regarding the effective interest rate and credit risk of current payables and bank overdrafts are set out in Note 18.

## NOTE 15: BORROWINGS

|                                         | Consolidated     |                | Parent           |                |
|-----------------------------------------|------------------|----------------|------------------|----------------|
|                                         | 2009             | 2008           | 2009             | 2008           |
|                                         | \$               | \$             | \$               | \$             |
| <b>Current</b>                          |                  |                |                  |                |
| WA Government loan (i)                  | 400,000          | 400,000        | 400,000          | 400,000        |
| Secured loans from related parties (ii) | 600,000          | -              | 600,000          | -              |
|                                         | <u>1,000,000</u> | <u>400,000</u> | <u>1,000,000</u> | <u>400,000</u> |

### Fair value disclosures

Details of the Group's interest bearing liabilities are set out in Note 18.

### Summary of borrowing arrangements

- (i) The WA Government loan is convertible to a grant over a five year period when certain conditions are met. The loan is non interest bearing. No income was recognised in 2009 (2008: nil).
- (ii) Related party loans are secured by a floating charge over the Group's assets and are ranked in priority after the fixed and floating charge in favour of HSBC Bank Australia Limited.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 15: BORROWINGS (continued)

At reporting date, the Group had the following financing facilities in place which have been negotiated with HSBC Bank Australia Limited:

|                                     | Consolidated     |                |
|-------------------------------------|------------------|----------------|
|                                     | 2009             | 2008           |
|                                     | \$               | \$             |
| Total facilities:                   |                  |                |
| • bank overdraft                    | 750,000          | -              |
| • guarantee facility                | 735,000          | 335,000        |
| • other                             | 1,000            | -              |
|                                     | <u>1,486,000</u> | <u>335,000</u> |
| Facilities used at reporting date   |                  |                |
| • bank overdraft                    | 610,484          | -              |
| • guarantee facility                | 259,900          | 335,000        |
| • other                             | 500              | -              |
|                                     | <u>870,884</u>   | <u>335,000</u> |
| Facilities unused at reporting date |                  |                |
| • bank overdraft                    | 139,516          | -              |
| • guarantee facility                | 475,100          | -              |
| • other                             | 500              | -              |
|                                     | <u>615,116</u>   | <u>-</u>       |
| Total facilities                    | 1,486,000        | 335,000        |
| Facilities used at reporting date   | (870,884)        | (335,000)      |
| Facilities unused at reporting date | <u>615,116</u>   | <u>-</u>       |

The overall bank facilities have been reported on a consolidated basis. HSBC Bank Australia Pty Ltd provide the Group with these facilities measured in aggregate over all companies in the Group. The parent company also has access to these facilities and is incorporated in the aggregate amounts disclosed in the table above.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 15: BORROWINGS (continued)

### Assets pledged as security

The carrying amounts of assets pledged as security are:

#### Current

##### *Floating charge*

|                                          |         |           |         |           |
|------------------------------------------|---------|-----------|---------|-----------|
| Cash and cash equivalents                | 5,427   | 1,310,923 | 5,250   | 1,162,351 |
| Receivables and other                    | 381,590 | 1,376,307 | 261,659 | 406,139   |
| Inventories                              | 428,525 | 1,455,964 | -       | -         |
| Total current assets pledged as security | 815,542 | 4,143,194 | 266,909 | 1,568,490 |

#### Non-Current

##### *First registered fixed charge*

|                                              |           |            |         |           |
|----------------------------------------------|-----------|------------|---------|-----------|
| Property plant and equipment                 | 3,999,855 | 9,961,707  | 103,937 | 836,572   |
| Total non-current assets pledged as security | 3,999,855 | 9,961,707  | 103,937 | 836,572   |
| Total assets pledged as security             | 4,815,397 | 14,104,901 | 370,846 | 2,405,062 |

## NOTE 16: CONTRIBUTED EQUITY, ACCUMULATED LOSSES AND RESERVES

### (a) Contributed equity

|                                                   | Consolidated |             | Parent      |             |
|---------------------------------------------------|--------------|-------------|-------------|-------------|
|                                                   | 2009         | 2008        | 2009        | 2008        |
|                                                   | \$           | \$          | \$          | \$          |
| 338,017,311 Ordinary shares issued and fully paid | 102,639,583  | 102,289,677 | 102,639,583 | 102,289,677 |

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of share capital and issued shares do not have a par value.

|                                                 | 2009        |             | 2008        |             |
|-------------------------------------------------|-------------|-------------|-------------|-------------|
|                                                 | No.         | \$          | No.         | \$          |
| <b>Movement in ordinary shares on issue</b>     |             |             |             |             |
| Balance at beginning of financial year          | 295,232,445 | 102,289,677 | 172,218,287 | 99,664,398  |
| Issued for cash on under placement subscription | 42,784,866  | 427,848     | -           | -           |
| Issued on exercise of options                   | -           | -           | 639         | 383         |
| Issued for cash under rights issue              | -           | -           | 123,013,519 | 3,075,338   |
| Share issue costs                               | -           | (77,942)    | -           | (450,442)   |
| Balance at end of financial year                | 338,017,311 | 102,639,583 | 295,232,445 | 102,289,677 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 16: CONTRIBUTED EQUITY, ACCUMULATED LOSSES AND RESERVES (continued)

### Share options

The company has one share based payment option scheme under which options to subscribe for the company's share have been granted to certain executives and other employees. Details of the ESOP are in Note 17.

### (b) Accumulated losses

|                                                  | Consolidated  |              | Parent        |              |
|--------------------------------------------------|---------------|--------------|---------------|--------------|
|                                                  | 2009          | 2008         | 2009          | 2008         |
|                                                  | \$            | \$           | \$            | \$           |
| Movements in accumulated losses were as follows: |               |              |               |              |
| Balance at beginning of financial year           | (91,312,145)  | (37,718,702) | (92,483,135)  | (31,912,445) |
| Net loss for the year                            | (8,979,907)   | (53,593,443) | (8,285,027)   | (60,570,690) |
| Balance at end of financial year                 | (100,291,854) | (91,312,145) | (100,768,162) | (92,483,135) |

### (c) Reserves

| Consolidated entity              | Options reserve | Foreign currency translation reserve | Total     |
|----------------------------------|-----------------|--------------------------------------|-----------|
|                                  | \$              | \$                                   | \$        |
| At 1 July 2007                   | 1,095,425       | (142,516)                            | 952,909   |
| Currency translation differences | -               | (263,089)                            | (263,089) |
| Share-based payments             | 55,974          | -                                    | 55,974    |
| Transfer – share options expired | (832,386)       | -                                    | (832,386) |
| At 30 June 2008                  | 319,013         | (405,605)                            | (86,592)  |
| Currency translation differences | -               | (70,703)                             | (70,703)  |
| Share based payments             | 82,584          | -                                    | 82,584    |
| At 30 June 2009                  | 401,597         | (476,308)                            | (74,711)  |

| Parent entity                    | Options reserve | Foreign currency translation reserve | Total     |
|----------------------------------|-----------------|--------------------------------------|-----------|
|                                  | \$              | \$                                   | \$        |
| At 1 July 2007                   | 1,095,425       | -                                    | 1,095,425 |
| Currency translation differences | -               | -                                    | -         |
| Share-based payments             | 55,974          | -                                    | 55,974    |
| Transfer – share options expired | (832,386)       | -                                    | (832,386) |
| At 30 June 2008                  | 319,013         | -                                    | 319,013   |
| Currency translation differences | -               | -                                    | -         |
| Share based payments             | 82,584          | -                                    | 82,584    |
| At 30 June 2009                  | 401,597         | -                                    | 401,597   |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 16: CONTRIBUTED EQUITY, ACCUMULATED LOSSES AND RESERVES (continued)

#### Nature and purpose of reserves

##### *Options 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 17 for further details of these plans.

##### *Foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

### NOTE 17: SHARE BASED PAYMENTS

#### (a) Employee share option plan

Share options are granted to executives and staff as part of their remuneration package. There are no cash settlement alternatives. The Employee Share 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 Board's discretion and there is no individual contractual right to participate in the plan or to receive any guaranteed benefits.

The expense recognised in the income statement in relation to share-based payments is disclosed in Note 2.

The following table illustrates the number and weighted average exercise prices of and movements in share options issued during the year:

|                                          | 2009<br>No. | 2009<br>WAEP | 2008<br>No. | 2008<br>WAEP |
|------------------------------------------|-------------|--------------|-------------|--------------|
| Outstanding at the beginning of the year | 6,140,000   | 0.224        | 5,665,000   | 1.48         |
| Granted during the year                  | 1,500,000   | 0.018        | 5,615,000   | 0.195        |
| Forfeited during the year                | (300,000)   | 0.014        | (5,140,000) | 1.48         |
| Exercised during the year                | -           | -            | -           | -            |
| Expired during the year                  | -           | -            | -           | -            |
| Outstanding at the end of the year       | 7,340,000   | 0.20         | 6,140,000   | 0.224        |
| Exercisable at the end of the year       | 6,840,000   | 0.19         | 2,780,000   | 0.3745       |

# **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

## **NOTE 17: SHARE BASED PAYMENTS (continued)**

The outstanding balance as at 30 June 2009 is represented by:

|                            | Number    | Grant date | Expiry date | Exercise price<br>\$ |
|----------------------------|-----------|------------|-------------|----------------------|
| Employee Share Option Plan | 75,000    | 18/10/2004 | 18/10/2009  | 0.50                 |
| Employee Share Option Plan | 75,000    | 18/10/2004 | 18/10/2009  | 1.00                 |
| Employee Share Option Plan | 75,000    | 18/04/2004 | 18/10/2009  | 1.50                 |
| Employee Share Option Plan | 100,000   | 10/08/2005 | 30/06/2010  | 1.50                 |
| Employee Share Option Plan | 100,000   | 10/08/2005 | 30/06/2010  | 1.13                 |
| Employee Share Option Plan | 100,000   | 10/08/2005 | 30/06/2010  | 2.00                 |
| Employee Share Option Plan | 175,000   | 30/06/2007 | 15/06/2012  | 0.60                 |
| Employee Share Option Plan | 5,290,000 | 26/03/2008 | 26/03/2013  | 0.10                 |
| Employee Share Option Plan | 1,350,000 | 22/09/2008 | 22/09/2013  | 0.10                 |

The weighted average remaining contractual life for the share options outstanding as at 30 June 2009 is 3.02 years (2008: 4.45 years).

The range of exercise prices for options outstanding at the end of the year was \$0.01 - \$2.00 (2008:\$0.01 - \$2.00).

The weighted average fair value of options granted during the year was \$0.018 (2008: \$0.195).

The following table lists the inputs to the model used for the years ended 30 June 2008 and 30 June 2009:

| Date issued                     | 22/09/2008 | 30/06/2007 | 26/03/2008 |
|---------------------------------|------------|------------|------------|
|                                 | \$0.10     | \$0.60     | \$0.10     |
| Expected volatility (%)         | 217%       | 180%       | 180%       |
| Risk-free interest rate (%)     | 5.68%      | 6.01%      | 6.37%      |
| Expected life of option (years) | 5 years    | 5 years    | 5 years    |
| Exercise price (cents)          | \$0.10     | \$0.60     | \$0.10     |
| Grant date share price          | \$0.029    | \$0.034    | \$0.032    |



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 17: SHARE BASED PAYMENTS (continued)

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value

The fair value at grant date of the options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled it is re-measured at each reporting date with changes in fair value recognised in profit or loss.

The total expense arising from share-based payment transactions at 30 June 2009 is \$82,584 (2008: \$832,386 credit).

## NOTE 18: FINANCIAL INSTRUMENTS

### (a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2008.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

|                                                                                                   | Consolidated |           | Parent    |            |
|---------------------------------------------------------------------------------------------------|--------------|-----------|-----------|------------|
|                                                                                                   | 2009         | 2008      | 2009      | 2008       |
|                                                                                                   | \$           | \$        | \$        | \$         |
| <b>(b) Categories of financial instruments</b>                                                    |              |           |           |            |
| <b>Financial assets</b>                                                                           |              |           |           |            |
| Cash and cash equivalents                                                                         | 5,427        | 1,310,923 | 5,250     | 1,162,351  |
| Trade and other receivables                                                                       | 177,275      | 1,240,115 | 57,344    | 269,947    |
| Other financial assets                                                                            | -            | -         | 3,051,278 | 8,874,997  |
|                                                                                                   | 182,702      | 2,551,038 | 3,113,872 | 10,307,295 |
| <b>Financial liabilities</b>                                                                      |              |           |           |            |
| Trade and other payables                                                                          | 2,204,165    | 2,761,436 | 828,091   | 754,504    |
| Borrowings                                                                                        | 1,000,000    | 400,000   | 1,000,000 | 400,000    |
|                                                                                                   | 3,204,165    | 3,161,436 | 1,828,091 | 1,154,504  |
| <b>(i) Loans and receivables designated as at carrying value through profit or loss</b>           |              |           |           |            |
| Carrying amount of loans and receivables designated as at 'carrying value through profit or loss' | -            | -         | 3,051,278 | 8,874,997  |
| Cumulative change in fair value attributable to changes in credit risk                            | -            | -         | -         | -          |
| Changes in fair value attributable to changes in credit risk recognised during the period         | -            | -         | -         | -          |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 18: FINANCIAL INSTRUMENTS (continued)

At the reporting date there are no significant concentrations of credit risk relating to loans and receivables at carrying value through profit or loss. The carrying amount reflected above represents the company's and the Group's maximum exposure to credit risk for such loans and receivables

#### (c) Financial risk management objectives

The Group is exposed to market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

#### (d) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, commodity prices and exchange rates. The Group manages its exposure to foreign currency by entering into contracts in foreign currency when exchange rates are more favourable to the company.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

#### (e) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved internal policy parameters.

The carrying amount of the Parent's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

|                    | Liabilities |         | Assets |         |
|--------------------|-------------|---------|--------|---------|
|                    | 2009        | 2008    | 2009   | 2008    |
|                    | \$          | \$      | \$     | \$      |
| Australian dollars | 880,702     | 932,676 | -      | 168,035 |

#### Foreign currency sensitivity analysis

The Group is exposed to US Dollar (USD) currency fluctuations.

The following details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the US dollar. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of possible change in foreign exchange rates.

The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or borrower. A positive number indicates increase in profit or loss and other equity where the Australian dollar strengthens against the respective currency. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the loss and other equity and the balance below would be negative.

Based on the financial instruments held at 30 June 2009 the Group's post tax loss and equity would have been \$72,234 higher/lower (2008: \$59,796 higher/lower.).

The parent entity's risk exposure to foreign exchange is considered to be immaterial.

The Group seeks to mitigate the effect of its foreign currency exposure by borrowing in US dollars for the US operations and limiting the outflow of Group funds for activities outside Australia.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 18: FINANCIAL INSTRUMENTS (continued)

#### (f) Interest rate risk management

The company and the Group are exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The company and Group's exposures to interest rate on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

#### Interest rate risk sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's:

- net profit increase/decreased would be immaterial.
- Other equity reserves increase/decrease would be immaterial.

The Group's sensitivity to interest rates has decreased during the current period mainly due to the reduction in variable rate debt instruments.

#### (g) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses publicly available financial information and its own trading record to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

#### (h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 15 is a listing of additional undrawn facilities that the company/Group has at its disposal to further reduce liquidity risk.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 18: FINANCIAL INSTRUMENTS (continued)**

**Liquidity and interest rate risk tables**

The following tables detail the company's and the Group's remaining contractual maturity for its non-derivative financial assets.

**Consolidated**

| Financial Assets            | Weighted<br>average<br>interest<br>rate | Fixed               | Floating        |                      |                |             |
|-----------------------------|-----------------------------------------|---------------------|-----------------|----------------------|----------------|-------------|
|                             |                                         | Less than<br>1 year | 1 – 3<br>months | 3 months<br>– 1 year | 1 – 5<br>years | 5+<br>years |
|                             |                                         | %                   | \$              | \$                   | \$             | \$          |
| <b>2009</b>                 |                                         |                     |                 |                      |                |             |
| Trade and other receivables | -                                       | 177,275             | -               | -                    | -              | -           |
| Cash and cash equivalents   | -                                       | -                   | 5,427           | -                    | -              | -           |
|                             |                                         | 177,275             | 5,427           | -                    | -              | -           |
| <b>2008</b>                 |                                         |                     |                 |                      |                |             |
| Trade and other receivables | -                                       | 1,240,115           | -               | -                    | -              | -           |
| Cash and cash equivalents   | 3.3%                                    | -                   | 1,310,923       | -                    | -              | -           |
|                             |                                         | 1,240,115           | 1,310,923       | -                    | -              | -           |

**Parent**

| Financial Assets            | Weighted<br>average<br>interest<br>rate | Fixed               | Floating        |                      |                |             |
|-----------------------------|-----------------------------------------|---------------------|-----------------|----------------------|----------------|-------------|
|                             |                                         | Less than<br>1 year | 1 – 3<br>Months | 3 months<br>– 1 year | 1 – 5<br>years | 5+<br>years |
|                             |                                         | %                   | \$              | \$                   | \$             | \$          |
| <b>2009</b>                 |                                         |                     |                 |                      |                |             |
| Trade and other receivables | -                                       | 57,344              | -               | -                    | -              | -           |
| Cash and cash equivalents   | -                                       | -                   | 5,250           | -                    | -              | -           |
|                             |                                         | 57,344              | 5,250           | -                    | -              | -           |
| <b>2008</b>                 |                                         |                     |                 |                      |                |             |
| Trade and other receivables | -                                       | 269,947             | -               | -                    | -              | -           |
| Cash and cash equivalents   | 3.3%                                    | -                   | 1,162,351       | -                    | -              | -           |
|                             |                                         | 269,947             | 1,162,351       | -                    | -              | -           |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 18: FINANCIAL INSTRUMENTS (continued)

### Liquidity and interest rate risk tables (continued)

#### Consolidated

| Financial Liabilities    | Weighted<br>average<br>interest<br>rate | Fixed               |                 | Floating             |                |             |
|--------------------------|-----------------------------------------|---------------------|-----------------|----------------------|----------------|-------------|
|                          |                                         | Less than<br>1 year | 1 – 3<br>Months | 3 months<br>– 1 year | 1 – 5<br>years | 5+<br>years |
|                          | %                                       | \$                  | \$              | \$                   | \$             | \$          |
| <b>2009</b>              |                                         |                     |                 |                      |                |             |
| Trade and other payables | -                                       | 1,593,681           | -               | -                    | -              | -           |
| Bank overdraft           | 14.3%                                   | -                   | 610,484         | -                    | -              | -           |
| Other                    | 12.0%                                   | -                   | -               | 6,399                | 10,800         | -           |
| Borrowings               | 12.5%                                   | 1,000,000           | -               | -                    | -              | -           |
|                          |                                         | 2,593,681           | 610,484         | 6,399                | 10,800         | -           |

#### 2008

|                          |   |           |   |        |        |   |
|--------------------------|---|-----------|---|--------|--------|---|
| Trade and other payables | - | 2,729,969 | - | -      | -      | - |
| Other                    | - | -         | - | 31,494 | 52,498 | - |
| Borrowings               | - | 400,000   | - | -      | -      | - |
|                          |   | 3,129,969 | - | 31,494 | 52,498 | - |

#### Parent

| Financial Liabilities    | Weighted<br>average<br>interest<br>rate | Fixed               |                 | Floating             |                |             |
|--------------------------|-----------------------------------------|---------------------|-----------------|----------------------|----------------|-------------|
|                          |                                         | Less than<br>1 year | 1 – 3<br>Months | 3 months<br>– 1 year | 1 – 5<br>years | 5+<br>years |
|                          | %                                       | \$                  | \$              | \$                   | \$             | \$          |
| <b>2009</b>              |                                         |                     |                 |                      |                |             |
| Trade and other payables | -                                       | 823,742             | -               | -                    | -              | -           |
| Bank overdraft           | 14.3%                                   | -                   | 4,349           | -                    | -              | -           |
| Borrowings               | 12.5%                                   | 1,000,000           | -               | -                    | -              | -           |
|                          |                                         | 1,823,742           | 4,349           | -                    | -              | -           |

#### 2008

|                          |   |           |   |   |   |   |
|--------------------------|---|-----------|---|---|---|---|
| Trade and other payables | - | 754,504   | - | - | - | - |
| Other                    | - | -         | - | - | - | - |
| Borrowings               | - | 400,000   | - | - | - | - |
|                          |   | 1,154,504 | - | - | - | - |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 18: FINANCIAL INSTRUMENTS (continued)

#### (i) Fair value of financial instruments

The carrying values of financial assets and financial liabilities are determined as follows:

- The carrying value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices
- The carrying value of other financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions
- The carrying value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

### NOTE 19: COMMITMENTS AND CONTINGENCIES

#### Operating lease commitments – Group as lessee

The Group has entered into commercial leases in relation to properties occupied by the Perth head office and the plant at the Largs Bay site. These leases have an average life of between 3 and 7 years with renewal options included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

|                                             | Consolidated |         | Parent |        |
|---------------------------------------------|--------------|---------|--------|--------|
|                                             | 2009         | 2008    | 2009   | 2008   |
|                                             | \$           | \$      | \$     | \$     |
| Within one year                             | 90,050       | 79,395  | 22,050 | 20,295 |
| After one year but not more than five years | 117,686      | 80,410  | 55,276 | 21,310 |
| More than five years                        | -            | 99,469  | -      | 45,871 |
|                                             | 207,736      | 259,274 | 77,326 | 87,476 |

#### Finance lease and hire purchase commitments - Group as lessee

The Group has finance leases and hire purchase contracts for various items of plant and equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 19: COMMITMENTS AND CONTINGENCIES (continued)

| Consolidated                                | 2009                                  |                                                | 2008                                  |                                                |
|---------------------------------------------|---------------------------------------|------------------------------------------------|---------------------------------------|------------------------------------------------|
|                                             | <i>Minimum<br/>lease<br/>payments</i> | <i>Present value<br/>of lease<br/>payments</i> | <i>Minimum<br/>lease<br/>payments</i> | <i>Present value<br/>of lease<br/>payments</i> |
|                                             | \$                                    | \$                                             | \$                                    | \$                                             |
| Within one year                             | 32,250                                | 32,250                                         | 31,494                                | 23,202                                         |
| After one year but not more than five years | 10,634                                | 10,634                                         | 52,497                                | 46,415                                         |
| Total minimum lease payments                | 42,884                                | 42,884                                         | 83,991                                | 69,617                                         |
| Less amounts representing finance charges   | (1,992)                               | (1,992)                                        | (14,374)                              | -                                              |
| Present value of minimum lease payments     | 40,892                                | 40,892                                         | 69,617                                | 69,617                                         |

The weighted average interest rate impact of the leases for both the Group is 12% (2008: Nil)

The parent entity does not have any finance lease commitments at 30 June 2009.

### Capital commitments

At 30 June 2009, the Group did not have any capital commitments.

### Other expenditure commitments

At 30 June 2009, the Group did not have any other expenditure commitments.

### Remuneration commitments

|                                                                                                                                                                                    | Consolidated |        | Parent |        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------|--------|--------|
|                                                                                                                                                                                    | 2009         | 2008   | 2009   | 2008   |
|                                                                                                                                                                                    | \$'000       | \$'000 | \$'000 | \$'000 |
| Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable: |              |        |        |        |
| Within one year                                                                                                                                                                    | 33,000       | -      | 33,000 | -      |
| After one year but not more than five years                                                                                                                                        | -            | -      | -      | -      |
| Longer than five years                                                                                                                                                             | 33,000       | -      | 33,000 | -      |

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of directors and executives referred to in Note 23 that are not recognised as liabilities and are not included in the directors' or executives' remuneration.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 19: COMMITMENTS AND CONTINGENCIES (continued)

#### Contingent liability

The Group has received the full proceeds of the Federal Government 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:

- (a) 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
- (b) 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 a 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.

On 15 April 2008 the company received notice that the Minister for Resources and Energy had approved a moratorium of 1 year on the company's production obligations under the Biofuels Capital Grant funding deed and that this moratorium was to be reviewed after 1 year.

During September 2009, the company entered into discussions with the Department of Resources Energy and Tourism to establish a variation to the Funding Deed and establish a way forward that is pragmatic and constructive for both parties. In order to achieve a resolution to the matter, further discussions will be entered into over the coming months and until a formal resolution can be made, the terms of the current Funding Deed have been put on hold.

Meanwhile, the company will continue to produce biodiesel that meets all applicable Fuel Standards in accordance with the Fuel Quality Standards Act 2000, will endeavour to continue to increase production levels at both the Picton and Largs Bay sites and will ensure that feedstocks are sourced from renewable sources of biomass produced waste products.

#### Legal claim

Neither the Group nor the Parent entity had any outstanding legal claims at reporting date, nor were they subject to any such claims.

#### Guarantees

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 20: RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of Australian Renewable Fuels Limited and the subsidiaries listed in the following table.

| <i>Name</i>                                    | <i>Country of<br/>Incorporation</i> | <i>% Equity Interest</i> |             | <i>Investment (\$)</i> |             |
|------------------------------------------------|-------------------------------------|--------------------------|-------------|------------------------|-------------|
|                                                |                                     | <i>2009</i>              | <i>2008</i> | <i>2009</i>            | <i>2008</i> |
| Australian Renewable Fuels<br>Picton Pty Ltd   | Australia                           | 100%                     | 100%        | 2                      | 2           |
| Australian Renewable Fuels<br>Adelaide Pty Ltd | Australia                           | 100%                     | 100%        | 1                      | 1           |
| ASG Analytik Pty Ltd                           | Australia                           | 50%                      | 50%         | 2                      | 2           |
| ARF Global Pty Ltd                             | Australia                           | 100%                     | 100%        | 1                      | 1           |
| Shelly Nominees Pty Ltd                        | Australia                           | 100%                     | 100%        | 2                      | 2           |
| American Renewable Fuels Inc                   | USA                                 | 63%                      | 64%         | 1                      | 1           |
| American Renewable Fuels LLC                   | USA                                 | -                        | 52%         | -                      | -           |
| Industrial Oilseeds Australia Pty<br>Ltd       | Australia                           | 100%                     | 100%        | -                      | -           |
| ARF Plantations Pty Ltd                        | Australia                           | 100%                     | 100%        | -                      | -           |

Australian Renewable Fuels Limited is the ultimate Australian parent entity and ultimate parent of the Group.

The Group sold its interests in American Renewable Fuels LLC on 31 October 2008. Details have been included at Note 5.

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year:

|                                                     |      | <i>Expenditure<br/>Related<br/>Parties</i> | <i>Amounts<br/>Owed to<br/>Related parties</i> |
|-----------------------------------------------------|------|--------------------------------------------|------------------------------------------------|
| <b>Consolidated</b>                                 |      |                                            |                                                |
| <i>Related party</i>                                |      | \$                                         | \$                                             |
| Entities with significant influence over the Group: |      |                                            |                                                |
| Australian Enterprise Holdings Pty Ltd              | 2009 | 13,972                                     | 250,000                                        |
|                                                     | 2008 | -                                          | -                                              |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 20: RELATED PARTY TRANSACTIONS (continued)

| Parent                                      |      | <i>Expenditure<br/>Related<br/>Parties<br/>\$</i> | <i>Amounts<br/>Owed by<br/>Related parties<br/>\$</i> |
|---------------------------------------------|------|---------------------------------------------------|-------------------------------------------------------|
| <i>Related party</i>                        |      |                                                   |                                                       |
| Subsidiaries:                               |      |                                                   |                                                       |
| Australian Renewable Fuels Picton Pty Ltd   | 2009 | 524,404                                           | 30,383,114                                            |
|                                             | 2008 | 1,433,025                                         | 29,858,710                                            |
| Australian Renewable Fuels Adelaide Pty Ltd | 2009 | 103,458                                           | 28,414,707                                            |
|                                             | 2008 | 2,483,531                                         | 28,311,249                                            |
| ASG Analytik Pty Ltd                        | 2009 | 65,077                                            | 870,106                                               |
|                                             | 2008 | 156,040                                           | 805,029                                               |
| ARF Global Pty Ltd                          | 2009 | -                                                 | 6,513                                                 |
|                                             | 2008 | -                                                 | 6,513                                                 |
| Shelly Nominees Pty Ltd                     | 2009 | -                                                 | 6,205                                                 |
|                                             | 2008 | -                                                 | 6,205                                                 |
| American Renewable Fuels Inc                | 2009 | 337,918                                           | 842,136                                               |
|                                             | 2008 | -                                                 | 504,218                                               |

## Entity with significant influence over the Group

Australian Enterprise Holdings Pty Ltd ("AEH") owns 15.92% of the ordinary shares in Australian Renewable Fuels Limited and has representation on the Board of the company. AEH has provided the Group with a loan of \$250,000 which accrues interest at 12% per annum, with no fixed date of repayment. The loan has been classified as current borrowings and is secured by a floating charge over the Group's assets as disclosed in Note 15.

## Subsidiaries

The parent entity, Australian Renewable Fuels Limited, at time to time during the year, has paid expenses on behalf its subsidiaries. No monies were advanced to subsidiaries. There are no repayment terms of the loans and the loans do not accrue interest charges. A provision for impairment of the loans exists at 30 June 2009 and has been disclosed in Note 10.

## Guarantees

Guarantees provided or received for any related party receivables or payables have been disclosed in Note 19.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 21: EVENTS OCCURRING AFTER THE REPORTING DATE

Since 30 June 2009 the following significant events have occurred with in the Group:

1. On 20 July 2009 the consolidated entity raised \$2,253,448 by way of issue of 225,344,874 ordinary shares following a renounceable rights issue of 2 new shares for every 3 existing shares at \$0.01 cents each together with one free attaching unlisted option exercisable any time prior to 13 July 2011 at an exercise price of \$0.01. The funds were raised for working capital requirements of the company and to facilitate the discovery of lower cost feed stocks, the exploration of uses of biodiesel in order to optimise production costs and to implement a marketing plan for the sale of biodiesel in certain markets. The rights issue was fully underwritten.
2. On 5 August 2009 the loan owing to Wasabi Energy Limited of \$100,000 was repaid in full out of the proceeds from the rights issue in accordance with the terms of the agreement between the companies.
3. On 15 September 2009 the company completed the settlement of the sale of the Picton land as announced in January 2009. The land was sold for net cash benefit of approximately \$2 million after retaining ownership interest of the land under the Picton operating facility, with the residual area being divested.

### NOTE 22: REMUNERATION OF AUDITORS

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

|                                                                                            | Consolidated |         | Parent  |         |
|--------------------------------------------------------------------------------------------|--------------|---------|---------|---------|
|                                                                                            | 2009         | 2008    | 2009    | 2008    |
|                                                                                            | \$           | \$      | \$      | \$      |
| <i>Amounts received or due and receivable by BDO Kendalls for:</i>                         |              |         |         |         |
| An audit or review of the financial report of the entity and any other entity in the Group | 116,808      | 71,936  | 116,808 | 71,936  |
| Other services in relation to the entity and any other entity in the Group                 |              |         |         |         |
| - tax compliance                                                                           | -            | 16,885  | -       | 16,885  |
| - corporate finance services                                                               | -            | 64,421  | -       | 64,421  |
|                                                                                            | 116,808      | 153,242 | 116,808 | 153,242 |

### NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURES

#### (a) Details of Key Management Personnel

##### (i) Directors

|             |                                                 |
|-------------|-------------------------------------------------|
| R N Scott   | Chairman (non-executive)                        |
| T Engelsman | Managing Director (appointed April 2009)        |
| J Playoust  | Director (non-executive) (appointed April 2009) |
| C Gullotta  | Director (non-executive) (appointed July 2009)  |
| G Denison   | Director (non-executive) (resigned August 2009) |
| G Towner    | Director (non-executive) (resigned April 2009)  |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

### (ii) Executives

|             |                                                                         |
|-------------|-------------------------------------------------------------------------|
| M L Ger     | Chief Executive Officer/Chief Financial Officer (resigned 31 July 2009) |
| T Oosterhof | Company Secretary (resigned 31 July 2009)                               |
| L Sole      | National Operations Manager                                             |
| L Cianfagna | Chief Accounting Officer (appointed 1 March 2009)                       |

|                              | Consolidated |            | Parent  |         |
|------------------------------|--------------|------------|---------|---------|
|                              | 2009         | 2008       | 2009    | 2008    |
|                              | \$           | \$         | \$      | \$      |
| Short term employee benefits | 565,116      | 1,090,371, | 565,116 | 601,483 |
| Post-employment benefits     | 18,420       | 34,498     | 18,420  | 34,498  |
| Share based payments         | 30,281       | 52,147     | 30,281  | 52,147  |
|                              | 613,817      | 1,177,016  | 613,817 | 688,128 |

Key management personnel remuneration has been included in sections A-C of the Remuneration Report section of the Directors' Report on pages 11 to 18.

### (b) Option holdings of Key Management Personnel (Consolidated)

#### (i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the Remuneration Report section of the Directors' Report on pages 18 to 20.

#### (ii) Option holdings of each director and other key management personnel held during the financial year including their personally related parties

|                     | Balance at beginning of period | Granted as remuneration | Options exercised | Net change Other # | Balance at end of period | Vested as at end of period<br>Exercisable | Not Exercisable |
|---------------------|--------------------------------|-------------------------|-------------------|--------------------|--------------------------|-------------------------------------------|-----------------|
| <b>30 June 2009</b> |                                |                         |                   |                    |                          |                                           |                 |
| <b>Directors</b>    |                                |                         |                   |                    |                          |                                           |                 |
| R N Scott           | -                              | -                       | -                 | -                  | -                        | -                                         | -               |
| T Engelsman         | -                              | -                       | -                 | -                  | -                        | -                                         | -               |
| J Playoust          | -                              | -                       | -                 | 32,921,631         | 32,921,631               | 32,921,631                                | -               |
| C Gullotta          | -                              | -                       | -                 | -                  | -                        | -                                         | -               |
| G Denison           | -                              | -                       | -                 | -                  | -                        | -                                         | -               |
| G Towner            | -                              | -                       | -                 | -                  | -                        | -                                         | -               |
| <b>Total</b>        | -                              | -                       | -                 | 32,921,631         | 32,921,631               | 32,921,631                                | -               |

# Includes forfeitures



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)**

**(b) Option holdings of Key Management Personnel (Consolidated)**

| 30 June 2009      | Balance at<br>beginning of<br>period | Granted as<br>remuneration | Options<br>exercised | Net change<br>Other # | Balance at<br>end of<br>period | Vested as at end of<br>period |                    |
|-------------------|--------------------------------------|----------------------------|----------------------|-----------------------|--------------------------------|-------------------------------|--------------------|
|                   |                                      |                            |                      |                       |                                | Exercisable                   | Not<br>Exercisable |
| <b>Executives</b> |                                      |                            |                      |                       |                                |                               |                    |
| M L Ger           | 3,525,000                            | 500,000                    | -                    | -                     | 4,025,000                      | 4,025,000                     | -                  |
| T Oosterhof       | 103,500                              | 70,000                     | -                    | (3,500)               | 170,000                        | 170,000                       | -                  |
| L Sole            | 2,100,000                            | 500,000                    | -                    | -                     | 2,600,000                      | 2,600,000                     | -                  |
| L Cianfagna       | -                                    | -                          | -                    | -                     | -                              | -                             | -                  |
| <b>Total</b>      | <b>5,728,500</b>                     | <b>1,070,000</b>           | <b>-</b>             | <b>(3,500)</b>        | <b>6,795,000</b>               | <b>6,795,000</b>              | <b>-</b>           |

# Includes  
forfeitures

All vested options are exercisable at the end of the year.

| 30 June 2008     | Balance at<br>beginning of<br>period | Granted as<br>remuneration | Options<br>exercised | Net change<br>Other # | Balance at<br>end of<br>period | Vested as at end of<br>period |                    |
|------------------|--------------------------------------|----------------------------|----------------------|-----------------------|--------------------------------|-------------------------------|--------------------|
|                  |                                      |                            |                      |                       |                                | Exercisable                   | Not<br>Exercisable |
| <b>Directors</b> |                                      |                            |                      |                       |                                |                               |                    |
| R N Scott        | -                                    | -                          | -                    | -                     | -                              | -                             | -                  |
| T Engelsman      | -                                    | -                          | -                    | -                     | -                              | -                             | -                  |
| J Playoust       | -                                    | -                          | -                    | -                     | -                              | -                             | -                  |
| C Gullotta       | -                                    | -                          | -                    | -                     | -                              | -                             | -                  |
| G Denison        | -                                    | -                          | -                    | -                     | -                              | -                             | -                  |
| G Towner         | -                                    | -                          | -                    | -                     | -                              | -                             | -                  |
| <b>Total</b>     | <b>-</b>                             | <b>-</b>                   | <b>-</b>             | <b>-</b>              | <b>-</b>                       | <b>-</b>                      | <b>-</b>           |

# Includes  
forfeitures



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)**

**(b) Option holdings of Key Management Personnel (Consolidated)**

| 30 June 2008      | Balance at<br>beginning of<br>period | Granted as<br>remuneration | Options<br>exercised | Net change<br>Other # | Balance at<br>end of<br>period | Vested as at end of period |                  |
|-------------------|--------------------------------------|----------------------------|----------------------|-----------------------|--------------------------------|----------------------------|------------------|
|                   |                                      |                            |                      |                       |                                | Exercisable                | Not Exercisable  |
| <b>Executives</b> |                                      |                            |                      |                       |                                |                            |                  |
| M L Ger           | 1,325,000                            | 3,000,000                  | -                    | (800,000)             | 3,525,000                      | 2,525,000                  | 1,000,000        |
| T Oosterhof       | 33,500                               | 70,000                     | -                    | -                     | 103,500                        | 30,000                     | 73,500           |
| L Sole            | 100,000                              | 2,000,000                  | -                    | -                     | 2,100,000                      | 100,000                    | 2,000,000        |
| L Cianfagna       | -                                    | -                          | -                    | -                     | -                              | -                          | -                |
| <b>Total</b>      | <b>1,458,500</b>                     | <b>5,070,000</b>           | <b>-</b>             | <b>(800,000)</b>      | <b>5,728,500</b>               | <b>2,655,000</b>           | <b>3,073,500</b> |

# Includes  
forfeitures

**(c) Shareholding of Key Management Personnel (Consolidated)**

The number of share in the company held during the financial year by each director and other key management personnel of the Group including their personally related parties are set out below

| 30 June 2009     | Balance at<br>beginning of<br>period | Granted as<br>remuneration | On exercise of<br>options | Net change<br>Other # | Balance at end<br>of period |
|------------------|--------------------------------------|----------------------------|---------------------------|-----------------------|-----------------------------|
|                  |                                      |                            |                           |                       |                             |
| <b>Directors</b> |                                      |                            |                           |                       |                             |
| R N Scott        | -                                    | -                          | -                         | -                     | -                           |
| T Engelsman      | -                                    | -                          | -                         | -                     | -                           |
| J Playoust       | -                                    | -                          | -                         | 52,382,447            | 52,382,447                  |
| C Gullotta       | -                                    | -                          | -                         | -                     | -                           |
| G Denison        | 592,109                              | -                          | -                         | -                     | 592,109                     |
| G Towner         | -                                    | -                          | -                         | -                     | -                           |
| <b>Total</b>     | <b>592,109</b>                       | <b>-</b>                   | <b>-</b>                  | <b>52,382,447</b>     | <b>52,974,556</b>           |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)**

**(c) Shareholding of Key Management Personnel (Consolidated) (continued)**

| <b>30 June 2009</b> | Balance at<br>beginning of<br>period | Granted as<br>remuneration | On exercise of<br>options | Net change<br>Other # | Balance at end<br>of period |
|---------------------|--------------------------------------|----------------------------|---------------------------|-----------------------|-----------------------------|
| <b>Executives</b>   |                                      |                            |                           |                       |                             |
| M L Ger             | -                                    | -                          | -                         | -                     | -                           |
| T Oosterhof         | 30,000                               | -                          | -                         | -                     | 30,000                      |
| L Sole              | 25,715                               | -                          | -                         | -                     | 25,715                      |
| L Cianfagna         | -                                    | -                          | -                         | -                     | -                           |
| <b>Total</b>        | <b>55,715</b>                        | <b>-</b>                   | <b>-</b>                  | <b>-</b>              | <b>55,715</b>               |

| <b>30 June 2008</b> | Balance at<br>beginning of<br>period | Granted as<br>remuneration | On exercise of<br>options | Net change<br>Other # | Balance at end<br>of period |
|---------------------|--------------------------------------|----------------------------|---------------------------|-----------------------|-----------------------------|
| <b>Directors</b>    |                                      |                            |                           |                       |                             |
| R N Scott           | -                                    | -                          | -                         | -                     | -                           |
| T Engelsman         | -                                    | -                          | -                         | -                     | -                           |
| J Playoust          | -                                    | -                          | -                         | -                     | -                           |
| C Gullotta          | -                                    | -                          | -                         | -                     | -                           |
| G Denison           | 345,396                              | -                          | -                         | 246,712               | 592,109                     |
| G Towner            | -                                    | -                          | -                         | -                     | -                           |
| <b>Total</b>        | <b>345,396</b>                       | <b>-</b>                   | <b>-</b>                  | <b>246,712</b>        | <b>592,109</b>              |



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

## NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

### (c) Shareholding of Key Management Personnel (Consolidated) (continued)

| 30 June 2008      | Balance at<br>beginning of<br>period | Granted as<br>remuneration | On exercise of<br>options | Net change<br>Other # | Balance at end<br>of period |
|-------------------|--------------------------------------|----------------------------|---------------------------|-----------------------|-----------------------------|
| <b>Executives</b> |                                      |                            |                           |                       |                             |
| M L Ger           | -                                    | -                          | -                         | -                     | -                           |
| T Oosterhof       | 17,500                               | 12,500                     | -                         | -                     | 30,000                      |
| L Sole            | 15,000                               | 10,715                     | -                         | -                     | 25,715                      |
| L Cianfagna       | -                                    | -                          | -                         | -                     | -                           |
| <b>Total</b>      | <b>32,500</b>                        | <b>23,215</b>              | <b>-</b>                  | <b>-</b>              | <b>55,715</b>               |

- All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.
- Mr R Scott and Mr G Towner are directors of Amadeus Energy Limited which held shares in the company at the period end. Mr Scott and Mr Towner also hold interests directly and indirectly in Amadeus Energy Limited.
- Mr Denison beneficially owns 4,678 shares through a personally related party.
- Ms Oosterhof beneficially owns 42,858 shares through a personally related party.
- Mr Playoust beneficially owns 3,000,000 shares through a personally related party.

### (d) Other transactions with Key Management Personnel

Mr Playoust is also a director of Australian Enterprise Holdings Pty Ltd which is owed \$250,000 by Australian Renewable Fuels Limited and has been disclosed in Note 20.

## DIRECTORS' DECLARATION

1. In the opinion of the directors:
  - (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001 including:
    - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year then ended; and
    - (ii) complying with Accounting Standards and Corporations Regulations 2001.
  - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 20 June 2009.

This declaration is signed in accordance with a resolution of the Board of Directors.



R N Scott  
Chairman

Dated this 30<sup>th</sup> day of September 2009





## **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 2009, 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 entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors' Responsibility for the Financial 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 controls 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. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### **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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial 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 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.

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

### **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* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

### **Basis for Qualified Opinion**

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. Subsequent to this, the company has commenced limited production on a contracted basis. At the date of this report, the directors are assessing options in relation to the future use 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 \$3.15million at 30 June 2009.

Due to this limitation of scope, we have been unable to determine whether the plants are carried at the correct values and what impact, if any, any required adjustment would have on the 30 June 2009 accounts of Australian Renewable Fuels Limited or the consolidated entity.

### **Qualified Auditor's Opinion**

In our opinion, with the exception of the matter described in the preceding paragraph:

- (a) the financial report of Australian Renewable Fuels Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

### **Material Uncertainty Regarding Continuation as a Going Concern**

Without qualifying our opinion, we draw attention to Note 1(a) in the financial report which indicates that the company incurred a net loss of \$8.98million during the year ended 30 June 2009. This condition, along with other matters as set forth in Note 1(a), 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.

### **Significant Uncertainty Regarding Contingent Liability**

Without qualification to the opinion expressed above, we draw attention to Note 19 to the financial statements. The consolidated entity has previously received grant funding totaling \$7.15 million from the Australian Government to assist with the construction of a biodiesel plant located at Largs Bay in South Australia. The grant contained post commissioning production obligations on the group which have not been achieved. The Company has been in negotiations with the Australian Government in relation to these conditions and the ultimate outcome of the matter can not presently be determined, and no provision for any liability that may result has been made in the financial report.

### **Significant Uncertainty Regarding Recoverability of Parent Receivables from Subsidiaries**

Without qualification to the opinion expressed above, we draw attention to Note 10 to the financial statements. The Company has provided loan funding to its controlled entities of \$60.5 million which has been impaired for recoverability to \$3.05 million. The recoverability of the loan balances is dependent upon the subsidiary companies abilities to realise their assets at amounts equal to or greater than their carrying values, extinguish their liabilities at amounts equal to or less than their carrying values or to trade profitably in the future.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included within the Directors' Report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### **Auditor's Opinion**

In our opinion, the Remuneration Report of Australian Renewable Fuels Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

### **BDO Kendall's Audit and Assurance (WA) Pty Ltd**

BDO Kendall's  
Glyn O'Brien

**Glyn O'Brien**

Director

Perth, Western Australia

Dated this 30th day of September 2009

## ASX ADDITIONAL INFORMATION

### THE 20 LARGEST SHARHOLDERS OF FULLY PAID ORDINARY SHARE AS AT 30 SEPTEMBER 2009

|    | Name                                                                               | Shares held        | % of Issued Capital |
|----|------------------------------------------------------------------------------------|--------------------|---------------------|
| 1  | WASABI ENERGY LTD                                                                  | 130,023,053        | 22.93               |
| 2  | AUSTRALIAN ENTERPRISE HOLDINGS PTY LTD<PLAYOUST FAMILY A/C>                        | 90,127,486         | 15.89               |
| 3  | MINING AND RURAL INVESTMENTS LTD                                                   | 25,000,000         | 4.41                |
| 4  | BELL POTTER NOMINEES LTD <BB NOMINEES A/C>                                         | 21,600,955         | 3.81                |
| 5  | LOCAL SUPER PTY LTD                                                                | 13,916,667         | 2.45                |
| 6  | INVIA CUSTODIAN PTY LIMITED<MICHELLE PLAYOUST A/C>                                 | 5,000,000          | 0.88                |
| 7  | MR PETER MATTHEWES BATES + MRS SANDRA CHRISTINE BATES<br><BATES FAMILY S/FUND A/C> | 4,000,000          | 0.71                |
| 8  | MR VALLIPURAM SANTHIRASEGARAM                                                      | 3,750,000          | 0.66                |
| 9  | MR JOHN KOPP & MRS HALINA KOPP <KOPP S/ F A/C>                                     | 3,700,000          | 0.65                |
| 10 | MICHAEL BURKE HOMES PTY LTD <BURKE FAMILY A/C>                                     | 3,570,000          | 0.63                |
| 11 | BRYLET PTY LTD                                                                     | 3,400,000          | 0.60                |
| 12 | MR JASON GILBERT RIGGS                                                             | 3,125,000          | 0.55                |
| 13 | DAHELE PTY LTD                                                                     | 3,009,300          | 0.53                |
| 14 | PENLEIGH BANNER PTY LTD <THE PURSE SUPER FUND A/C>                                 | 3,000,000          | 0.53                |
| 15 | RURAL SALES & MARKETING PTY LIMITED<SUPER FUND A/C>                                | 2,908,295          | 0.51                |
| 16 | RHODES MINING LIMITED                                                              | 2,767,266          | 0.49                |
| 17 | MR QUENTIN HOLLY                                                                   | 2,665,483          | 0.47                |
| 18 | MASTERLINK INVESTMENTS PTY LTD <ERIC HEAD PENSION FUND A/C>                        | 2,166,666          | 0.38                |
| 19 | LEEJAMES NOMINEES PTY LTD <HEPBURN SUPER FUND A/C>                                 | 2,142,858          | 0.38                |
| 20 | MR VINCENT MICHAEL ANNERT                                                          | 2,019,648          | 0.36                |
|    | <b>Total Shareholding of top 20 holders</b>                                        | <b>330,365,720</b> | <b>58.25</b>        |

### DISTRIBUTION OF SHAREHOLDERS AS AT 30 SEPTEMBER 2009

| Range                   | Number of Shareholders | Number of Shares | % of Issued Capital |
|-------------------------|------------------------|------------------|---------------------|
| 1 - 1,000               | 182                    | 116,659          | 0.02                |
| 1,001 - 5,000           | 695                    | 2,060,687        | 0.36                |
| 5,001 - 10,000          | 429                    | 3,366,212        | 0.59                |
| 10,001 - 100,000        | 1,366                  | 54,972,103       | 9.69                |
| 100,001 - 9,999,999,999 | 538                    | 506,589,144      | 89.33               |
| Rounding                |                        |                  |                     |
| Total                   | 3,210                  | 567,104,805      | 100.00              |