Appendix 4D

Half year report

1. Company details

Name of entity

Australian Renewable Fuels Limited

ABN	Half year ended ('current period')	Half year ended ('previous period')
66 096 782 188	31 December 2011	31 December 2010

2. Results for announcement to the market

$A'000's

2.1	Revenues from ordinary activities	Up	588.3%	to	18,653
2.2	Loss from ordinary activities after tax attributable to members	Up (increased loss)	51.2%	to	(4,721)
2.3	Net loss for the period attributable to members	Up (increased loss)	51.2%	to	(4,721)
2.4	Dividends	No interim dividends have been declared for the half year ended 31 December 2011			
2.5	Record date for determining entitlements to the dividend.	n/a			

3. NTA backing

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	0.7 cents per share	0.6 cents per share

4.1 Control gained over entities

Name of entity (or group of entities)	Biodiesel Producers Limited
Date control gained	1 November 2011
Contribution of such entities to the reporting entity's profit/ (loss) from ordinary activities during the period (where material).	69,187
Profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period.	69,187

4.2 Loss of control over entities

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

5. Dividends - Individual dividends per security

		Date dividend is payable	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
Interim dividend:	Current year	n/a	nil	nil	nil
	Previous year	n/a	nil	nil	nil

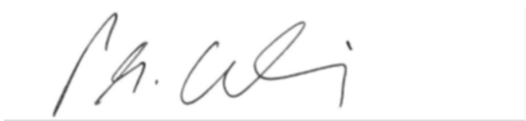
6. Foreign entities

American Renewable Fuels Inc – This entity is consolidated into the Group accounts in accordance with AIFRS.

7. If the accounts are subject to audit dispute or qualification, details are described below

n/a

Signed:



Phil Garling

Date: 29 February 2012

Chairman

AUSTRALIAN RENEWABLE FUELS LIMITED

ABN 66 096 782 188

Half-year report for the half-year ended 31 December 2011

Contents

Directors' report 3
Auditors Independence Declaration 5
Directors' declaration 6
Condensed consolidated statement of comprehensive income for the half-year ended 31 December 2011 7
Condensed consolidated statement of financial position as at 31 December 2011 8
Condensed consolidated statement of changes in equity for the half-year ended 31 December 2011 9
Condensed consolidated cash flow statement for the half-year ended 31 December 2011 10
Notes to condensed consolidated financial statements 11
Independent Auditor's Review Report 17

Directors' report

The directors of Australian Renewable Fuels Limited present the financial report of the company and its subsidiaries for the half-year ended 31 December 2011. In order to comply with the provisions of the *Corporation Act 2001*, the directors report as follows:

The directors of the company during or since the end of the half-year are:

- Mr Philip Garling – Non Executive Chairman
- Mr Andrew White – Managing Director
- Mr Julien Playoust – Non Executive Director
- Mr Michael Costello – Non Executive Director
- Mr Tom Engelsman – Chairman (resigned 14 December 2011)

Review of operations

Acquisition of Biodiesel Producers Limited

On 1st November 2011, Australian Renewable Fuels ("ARW") completed the acquisition of Biodiesel Producers Limited ("BPL"), a biodiesel manufacturing company with a facility in Barnawartha, Victoria near the NSW/Victorian border. This acquisition is a strong strategic fit for the Group and adds an additional 60 million litres in production capacity. The addition of BPL increases ARW's total 'nameplate' production capacity by 67% to 150 million litres per annum. Its geographic location allows efficient access into both the NSW and Victorian markets to supplement ARW's existing facilities in South Australia and Western Australia, thereby making ARW a national provider of biodiesel in Australia.

The acquisition was structured as a share acquisition for 100% of BPL under section 414 of the Corporations Act 2001.

Half Year Results

The result of the consolidated entity attributable to equity holders of Australian Renewable Fuels Limited for the half-year amounted to a loss of $4,720,841 compared to the 2010 half year loss of $3,122,894. This result incorporates the consolidation of the BPL result from 1st November 2011 when it was acquired by the Group. The result does not take to account any profit or loss that may result from the re-assessment of the fair value of BPL assets which will be included in the full year results for the year ending 30 June 2012.

The material movements from the prior period for the Group are as follows:

- Revenue from ordinary activities was up by $15,943,075 to $18,652,982 predominately due to the inclusion of revenues from BPL of approximately $10.6 million. The balance is attributable to improved trading, primarily through export sales.
- Raw materials and costs of consumables increased by $14,582,369 to $17,193,128 mainly due to the inclusion of BPL.
- The balance of the increase in operating expenses is the result of the addition of BPL to the Group.

Production

Total production levels for the business increased significantly during the half year to a total of 9.8 million litres for the period, with the key contributing factors being the commencement of biodiesel sales into the export market and the inclusion of the BPL business for the period from 1 November 2011.

A capital expenditure program to enable all facilities to broaden their feedstock processing capabilities to take advantage of new cost-effective feedstock opportunities commenced during the review period with over $2 million spent on upgrades and new equipment. This means that not only has the Group significantly expanded its production volume capacity through BPL, but it is also expanding its range of feedstock options which provides a sound basis for sustainable commercial growth.

During the period a rigorous review of the Group's three biodiesel facilities was undertaken by the U.S. Environmental Protection Authority. As a result all facilities achieved accreditation under the U.S. Renewable Fuel Standard and were also granted approval to generate U.S. renewable energy credits. This has created export opportunities into the profitable U.S. market.

Sales and marketing

During the reporting period market prices for biodiesel continued to fluctuate in line with crude oil and mineral diesel prices with which biodiesel prices are typically correlated. The strong Australian dollar has had a generally negative impact, putting downward pressure on selling prices of mineral diesel in Australia which in turn impacts biodiesel prices.

Sales for the Group for the period totalled $18.7 million which is an increase of $15.9 million (almost seven-fold) over the equivalent 2010 period. Of this, $10.6 million related to sales by BPL for the two month period included after its acquisition and $5.3 million resulted from increases in sales by the Largs Bay and Picton facilities.

Directors' report

Continued

Domestically, the focus of sales has continued to be the fuel distribution and mining sectors, the largest single contract being with Shell for a minimum of 40 million litres per year.

In late 2011 the Group also commenced its export program, with over 4 million litres being sold into the U.S. market as part of an ongoing strategy. Under that program, there is a 4 million litre shipment under contract for March and further 4 million litre orders are under negotiation for each of April and May 2012.

Feedstocks

During the review period domestic feedstock prices continued to fluctuate and by the end of the half year prices were firm at approximately $600 to $900 per tonne depending on the quality of feedstock. The Group's strategy of seeking stable lower cost alternative feedstocks and developing its manufacturing capability to match these lower cost raw materials is an important part of improving the profitability of the Group.

Development of the waste product Recycled Mill Oil ("RMO") as a viable feedstock for biodiesel continued throughout the half year. Work progressed on the processing and logistics requirements to utilise RMO in the Group's facilities and also on certifying the sustainability and environmental credentials of RMO. RMO based biodiesel will be compliant with the Australian Diesel Standard.

Largs Bay Facility Fire

On the evening of 24 December 2011, a fire broke out at the Group's Largs Bay facility in South Australia. The site was closed at the time and there were no injuries to staff. Investigations on the cause and extent of damage are continuing. The damage was contained to the loading/unloading bay and to a range of tanks and equipment in the tank farms and pre-treatment areas of the site.

The plant is insured for both material damage and business interruption and the insurers have confirmed their acceptance of indemnity for this incident, subject to the applicable terms and conditions of the insurance policy. Work is progressing to resolve and expedite the repair program. In the meantime, the facility's customer base is being serviced by the Barnawartha and Picton facilities and it is not anticipated that there will be any significant disruption to the business as a result of the interruption caused by the fire.

Financial and corporate

During the half year the Group issued an additional 507,659,338 new shares, comprising 13,000,000 shares relating to a shares placement and 494,659,338 new shares from the conversion of existing options. The total capital raised from these issuances was $5.2 million.

In addition, $13.7 million of convertible notes were issued during the period as part of the acquisition of Biodiesel Producers Limited. The acquisition also resulted in a $10.0 million financing facility being brought into the Group's books.

During and since the end of the half year there have been a number of changes in the executive management of the Group and the business is now well positioned to ramp up operations and capitalise on the various commercial opportunities that present themselves.

Auditor's independence declaration

The auditor's independence declaration is included on page 17 of the half-year financial report.

Signed in accordance with a resolution of directors' made pursuant to *S.306(3)* of the *Corporations Act 2001*.
On behalf of the directors,

Philip Garling
Chairman
Melbourne, 29 February 2012

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

The Board of Directors
Australian Renewable Fuels Limited
Level 5, 409 St Kilda Road
MELBOURNE VIC 3000

29 February 2012

Dear Board Members

Australian Renewable Fuels Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Australian Renewable Fuels Limited.

As lead audit partner for the review of the financial statements of Australian Renewable Fuels Limited for the half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Sanders

Ian Sanders
Partner
Chartered Accountant

Directors' declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards, and give a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to *S.303(5)* of the *Corporations Act 2001*.

On behalf of the directors,

Philip Garling
Chairman
Melbourne, 29 February 2011

Condensed consolidated statement of comprehensive income for the half-year ended 31 December 2011

	Note	Consolidated Half-year ended 31 Dec 2011 $	Consolidated Half-year ended 31 Dec 2010 $
Revenue from continuing operations		18,652,982	2,709,907
Interest Revenue		30,567	13,183
Other Revenue		4,046	100,438
Raw material and consumables		(17,193,128)	(2,610,759)
Plant operating expenses		(1,730,129)	(742,985)
Employee benefits expenses		(2,052,503)	(1,008,402)
Administration and marketing expenses		(579,164)	(487,478)
Depreciation and amortisation expenses		(927,127)	(513,606)
Finance costs	4	(370,330)	(95,924)
Consulting fees		(270,727)	(261,832)
Other expenses		(318,702)	(254,916)
Profit/(loss) before tax		(4,754,215)	(3,152,374)
Income tax benefit		-	-
Profit/(loss) for the period		**(4,754,215)**	**(3,152,374)**
Attributed to:			
Owners of the parent		(4,720,841)	(3,122,894)
Non-controlling interests		(33,374)	(29,480)
		(4,754,215)	(15,319,403)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		(58)	2,318
Total comprehensive income/(loss) for the period		**(4,754,273)**	**(3,150,056)**
Attributed to:			
Owners of the parent		(4,720,899)	(3,120,576)
Non-controlling interests		(33,374)	(29,480)
		(4,754,273)	(6,297,794)
Earnings per share			
From continuing and discontinued operations:			
Basic (cents per share)		(0.259)	(0.366)
Diluted (cents per share)		(0.259)	(0.366)

Notes to the condensed consolidated financial statements are included on pages 11 to 16.

Condensed consolidated statement of financial position as at 31 December 2011

	Note	Consolidated 31 Dec 2011 $	Consolidated 30 Jun 2011 $
Current assets			
Cash and cash equivalents		3,171,645	3,528,363
Trade and other receivables		6,668,092	871,945
Inventories		5,123,193	1,741,747
Other		1,086,205	436,621
Total current assets		16,049,135	6,578,676
Non-current assets			
Property, plant and equipment	5	36,042,136	5,212,986
Intangible assets		-	90
Other assets		716,800	720,930
Total non-current assets		36,758,936	5,934,006
Total assets		**52,808,071**	**12,512,682**
Current liabilities			
Bank overdraft		9,198,878	-
Provisions		308,285	182,010
Trade and other payables		9,687,940	2,812,832
Amounts payable on acquisition of Biodiesel Producers Limited	6	3,443,875	-
Other	6	4,703,618	-
Total current liabilities		27,342,596	2,994,842
Non-current liabilities			
Provisions		37,951	-
Convertible notes	6	13,650,000	-
Total non-current liabilities		13,687,951	-
Total liabilities		**41,030,547**	**2,994,842**
Net assets		**11,777,524**	**9,517,840**
Equity			
Contributed equity		123,357,311	114,576,984
Reserves		2,241,610	4,008,038
Accumulated losses		(113,649,905)	(108,929,064)
Total equity attributable to equity holders of Australian Renewable Fuels Limited		**11,949,016**	**9,655,958**
Non-controlling interest		(171,492)	(138,118)
Total equity		**11,777,524**	**9,517,840**

Notes to the condensed consolidated financial statements are included on pages 11 to 16.

Condensed consolidated statement of changes in equity for the half-year ended 31 December 2011

	Consolidated								
	Issued capital and contributed equity	Employee share option reserve	Currency translation reserve	General options reserve	Other reserve	Accumulated losses	Attributable to owners of the parent	Non-controlling interest	Total
	$	$	$	$	$	$	$	$	$
Balance at 1 July 2010	104,561,260	225,162	(471,008)	1,469,904	-	(100,865,126)	4,920,192	(73,720)	4,846,472
Exchange differences arising on translation of foreign operations	-	-	2,318	-	-	-	2,318	-	2,318
Profit(Loss) for the period	-	-	-	-	-	(3,122,894)	(3,122,894)	(29,480)	(3,152,374)
Total comprehensive income for the period	-	-	2,318	-	-	(3,122,894)	(3,120,576)	(29,480)	(3,150,056)
Shares issued during the year *(Note 7)*	115,923	-	-	-	-	-	115,923	-	115,923
Options issued during the year *(Note 7)*	-	-		5,394,528	-	-	5,394,528	-	5,394,528
Recognition of share-based payments	-	212,893	-	-	-	-	212,893	-	212,893
Exercise of options	318,017	-	-	(96,254)	-	-	221,763	-	221,763
Balance at 31 December 2010	**104,995,200**	**438,055**	**(468,690)**	**6,768,178**	**-**	**(103,988,020)**	**7,744,723**	**(103,200)**	**7,641,523**
Balance at 1 July 2011	114,576,984	611,428	(468,561)	3,615,171	250,000	(108,929,064)	9,655,958	(138,118)	9,517,840
Exchange differences arising on translation of foreign operations	-	-	(58)	-	-	-	(58)	-	(58)
Profit(Loss) for the period	-	-	-	-	-	(4,720,841)	(4,720,841)	(33,374)	(4,754,215)
Total comprehensive income for the period	-	-	(58)	-	-	(4,720,841)	(4,720,899)	(33,374)	(4,754,273)
Shares issued during the year *(Note 7)*	260,000	-	-	-	-	-	260,000	-	260,000
Share issue costs	(21,750)	-	-	-	-	-	(21,750)	-	(21,750)
Exercise of options *(Note 7)*	8,542,077	-	-	(3,595,485)	-	-	4,946,592	-	4,946,592
Recognition of share-based payments	-	159,547	-	-	-	-	159,547	-	159,547
Reversal from forfeiture of options	-	(15,432)	-	-	-	-	(15,432)	-	(15,432)
Equity received in advance	-	-	-	-	1,685,000	-	1,685,000	-	1,685,000
Balance at 31 December 2011	**123,357,311**	**755,543**	**(468,619)**	**19,686**	**1,935,000**	**(113,649,905)**	**11,949,016**	**(171,492)**	**11,777,524**

Notes to the condensed consolidated financial statements are included on pages 11 to 16.

Condensed consolidated cash flow statement for the half-year ended 31 December 2011

	Note	Consolidated Half-year ended 31 Dec 2011 $	Half-year ended 31 Dec 2010 $
Cash flows from operating activities			
Receipts from customers		16,104,546	2,791,558
Interest received		34,846	33,182
Receipts from R & D grant		-	357,768
Interest Paid		(142,830)	(159,652)
Payments to suppliers and employees		(21,196,755)	(5,913,284)
Net cash used in operating activities		(5,200,193)	(2,890,428)
Cash flows from investing activities			
Amounts advanced to other entities		-	(17,000)
Proceeds from sale of assets		472	-
Payment for property, plant and equipment		(2,003,890)	(48,805)
Net cash provided by/(used in) investing activities		(2,003,418)	(65,805)
Cash flows from financing activities			
Repayment on finance leases		(10,805)	(2,865)
Repayment on borrowings		-	(1,350,751)
Equity received in advance	8	1,685,000	-
Proceeds from share issues and options	7	5,155,123	4,420,846
Net cash provided by financing activities		6,829,318	3,067,230
Net increase/(decrease) in cash and cash equivalents		(374,293)	110,997
BPL net overdraft on acquisition	6	(9,181,245)	-
Effect of exchange rate changes on cash & cash equivalents		(58)	2,318
Cash and cash equivalents at the beginning of the period		3,528,363	778,789
Cash and cash equivalents at the end of the period		**(6,027,233)**	**892,104**

Notes to the condensed consolidated financial statements are included on pages 11 to 16.

Notes to condensed consolidated financial statements

1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2011 annual financial report for the financial year ended 30 June 2011, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group had adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to their operations and effective for the current reporting period. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the consolidated entity.

Going Concern

During the period, the consolidated entity incurred a net loss attributed to owners of the $4,720,841 with net cash outflows from operating activities of $5,200,123 during the half year ended 31 December 2011. As at 31 December 2011 current liabilities exceed current assets by $11,293,461. Notwithstanding the losses incurred from normal operations, the directors consider it appropriate to prepare the financial report on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of the business, but will be dependent on the following being achieved:

- Securing new and significant sales contracts.
- Finalising access to cheaper feedstock and when combined with planned capital improvements to the Plants, supply biodiesel to the market at materially improved margins.

The company is confident of delivering on these strategies by June 2012 due to:

- The acquisition of Biodiesel Producers Limited which has added approximately 60 million litres production capacity to the Group and has also added another element to the geographic diversification of the Group's production facilities, noting that in the biodiesel industry economies of scale are considered to be a key driver in commercial success.
- The recent track record of sales success, and pipeline of tenders and sales enquiries.
- The success to date in executing more key sales contracts and successfully finalising negotiations for additional sales agreements which, when combined with the current strategies to utilise alternative feedstock types, will provide the Company with greater gross margins and therefore deliver improving cash flows.

At the date of this report and having considered the above factors, the directors believe that the consolidated entity will be able to continue as a going concern. If the assumptions above are not realised, then there may be material uncertainty whether the consolidated entity will continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

2. Segment information

The Group's reportable segments under AASB 8 are as follows:

- Picton – Biodiesel plant located in Western Australia.
- Largs Bay – Biodiesel plant located in South Australia.
- Barnawartha - Biodiesel plant located in Victoria - This was acquired by the Group on 1 November 2011. Results are included from this date.
- USA – As at 31 December 2011 the US segment of the business had not yet generated income. The business was dormant during the 6 month period under review, with the exception of patent maintenance activities.

Amounts relating to the prior period have also been reported in accordance with AASB 8. The accounting policies of the reportable segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segments for the periods under review:

	Revenue		Segment Result	
	Half-year ended		Half-year ended	
	31 December 2011 $	31 December 2010 $	31 December 2011 $	31 December 2010 $
Continuing operations				
Picton, Western Australia	721,233	1,036,065	(824,810)	(657,508)
Largs Bay, South Australia	7,316,390	1,673,842	(1,293,018)	(919,669)
Barnawartha, Victoria	13,331,643	-	352,997	-
USA	-	-	(607)	(10,455)
	21,369,266	2,709,907	(1,765,438)	(1,587,632)
Corporate			(2,505,394)	(1,482,001)
Interest revenue			30,567	13,183
Finance costs			(370,330)	(95,924)
Internal sales Barnawartha to Largs Bay	(2,716,284)	-	(143,620)	-
Consolidated segment revenue and profit for the period	**18,652,982**	**2,709,907**	**(4,754,215)**	**(3,152,374)**

The revenue reported above represents the revenue generated from external customers.

Segment result represents the profit or loss incurred by each segment without the allocation of interest revenue, finance costs and intercompany sales. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

3. Results for the period

The profit/(loss) for the half-year does not include any items that are unusual because of their nature, size or incidence.

4. Finance costs

	Consolidated	
	31 December 2011	31 December 2010
	$	$
Interest on convertible notes	227,500	-
Interest on bank overdraft	137,818	-
Interest on loan – Wasabi Energy Ltd	-	95,602
Other	5,012	322
	5,012	95,924

5. Property plant & equipment

	Consolidated		
	Property plant & equipment	Capital work in progress	Total
	$	$	$
Balance as at 30 June 2011			
Australian Renewable Fuels Ltd	13,296	-	13,296
Australian Renewable Fuels Adelaide Pty Ltd	1,714,664	-	1,714,664
Australian Renewable Fuels Picton Pty Ltd	2,913,715	-	2,913,715
Biodiesel Producers Ltd	-	-	-
Besok Fuels Pty Ltd	-	206,606	206,606
ASG Analytik Pty Ltd	364,705	-	364,705
	364,705	**206,606**	**571,311**
Balance as at 31 Dec 2011			
Australian Renewable Fuels Ltd	93,747	-	93,747
Australian Renewable Fuels Adelaide Pty Ltd	1,374,403	-	1,374,403
Australian Renewable Fuels Picton Pty Ltd	2,740,356	-	2,740,356
Biodiesel Producers Ltd	29,513,181	128,640	29,641,821
Besok Fuels Pty Ltd	7,928	1,857,879	1,865,807
ASG Analytik Pty Ltd	326,002	-	326,002
	34,055,617	**1,986,519**	**36,042,136**

6. Business combinations

On 1 November 2011, the Group acquired Biodiesel Producers Limited ("BPL"), a biodiesel producer with capacity of approximately60 million litres per annum. Details of the purchase are as follows:

Subsidiary acquired	**Principal activity**	**Date of acquisition**	**Proportion of shares acquired**
			%
Biodiesel Producers Limited	Producer of biodiesel	01/11/2011	100

Consideration transferred

	$
Cash fee to be paid	3,443,875
Convertible notes issued **	13,650,000
	17,093,875

(**secured by charges and mortgages over assets and undertakings of BPL, Australian Renewable Fuels Adelaide Pty Ltd and Australian Renewable Fuels Ltd. These securities are subordinate to the charge against the Group overdraft)

6. Business combinations *(continued)*

The cash fees to be paid have been recognised as current liabilities in the statement of financial position and are due for payment on 31 December 2012. Convertible notes issued by the parent are recognised as non-current liabilities in the statement of financial position. Acquisition-related costs have been excluded from the consideration transferred and have been recognised as an expense in the half year in the statement of comprehensive income.

Assets acquired and liabilities assumed at the date of acquisition

	$
Current assets	
Net Cash and cash equivalents / (overdraft)	(9,181,245)
Trade and other receivables	4,450,741
Inventory	2,708,001
Other	235,202
Non-current assets	
Property, plant and equipment	29,950,143
Current liabilities	
Trade and other payables	(6,365,349)
Other liabilities	(4,703,618)
Consideration Transferred	17,093,875

The initial accounting for the acquisition of BPL has only been provisionally determined at the end of the reporting period. BPL became a wholly owned subsidiary on acquisition and has joined the company's tax-consolidated group. For tax purposes, the tax values of BPL's assets are required to be reset based on market values of the assets. At the date of finalisation of these consolidated financial statements, the necessary market valuations and other calculations had not been finalised and the adjustment to deferred taxes, other intangibles and other liabilities has therefore only been provisionally determined based on the directors' best estimate of the likely fair values.

Net cash outflow on acquisition of subsidiaries

	31 December 2011 $
Consideration paid in cash during the period	-
Less: cash and cash equivalent balances acquired (overdraft**)	(9,181,245)
	(9,181,245)

(** overdraft carries a secured charge over the assets and undertakings of Australian Renewable Fuels Ltd, Australian Renewable Fuels Adelaide Pty Ltd, Australian Renewable Fuels Picton Pty Ltd and Biodiesel Producers Ltd)

Impact of acquisitions on the results of the Group

Included in the Group's loss for the period is $69,187 profit attributable to the additional business generated by BPL. Revenue for the year includes an additional $10,615,359 generated by BPL.

Had the business combination been effected at 1 July 2011, the revenue of the Group would have been $38,596,252 and the Group's net loss would have been $5,541,711.

7. Contributed equity

	31 Dec 2011 *No. Shares*	30 June 2011 *No. Shares*
Ordinary shares		
Fully paid	2,240,300,361	2041
Movement during the period		
Opening balance	1,732,641,023	2041
Issue of shares from rights issue	-	772,063,390
Issue of shares from private placement	13,000,000	-
Exercise of options	494,659,338	329,054,249
Closing Balance	507,659,338	329,054,249

During the half year ending 31 December 2011, the Group issued a total of 507,659,338 new ordinary shares. Of these: 13,000,000 ordinary shares were issued on 28 July at $0.02 as part of an underwritten private placement of shares; and 494,659,338 were issued upon the exercise of options at various dates at $0.01.

	31 Dec 2011 *No. Options*	30 June 2011 *No. Options*
Options		
Opening balance	572,327,816	309,318,675
Movement during the period		
Issue of options from rights issue	-	592,063,390
Issue of options to directors	45,000,000	-
Options expired	(18,033,478)	-
Options forfeited	(18,000,000)	-
Exercise of options	(494,659,338)	(329,054,249)
	86,635,000	572,327,816

During the half year ending 31 December 2011, the Group issued at total of 45,000,000 options to directors at $0.03 with an expiry date of 15 December 2014. A total of 494,659,338 options with an exercise price of $0.01 were exercised at various dates. Option values are ascribed to the options reserve initially. When the options are subsequently exercised the value in the general option reserve will be transferred to issued capital.

8. Global Biofuels Trading – Equity in advance

As part of the project to expand the feedstock range capability of the Group's manufacturing facilities, Global Biofuels Trading Inc ("GBTI") has agreed to provide $2 million in funding to a subsidiary of the Group, Besok Fuels Pty Ltd, to finance related capital expenditure. As part of this funding arrangement, the funds were initially held in trust and progressive amounts have been withdrawn as the design and fabrication of the new capital equipment progresses. As at 31 December 2011 $1,935,000 had been drawn down of which $1,857,879 has been incurred as capital work-in-progress.

Under the agreement with GBTI, the earlier of the commissioning of the new plant or complete drawdown of the $2 million will trigger the Group to issue 200 million shares to GBTI at price of $0.01 per share together with 200 million free options at $0.01.

The advances from GBTI to ARF are accounted for as an 'Other Equity Reserve' transaction until the conditions precedent relating to the agreement are satisfied at which point equity will be issued against this Reserve.

9. Contingent assets and liabilities

Contingent Liability - Biofuels Capital Infrastructure Grant

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 biodiesel plant at Largs Bay, South Australia. The grant contained post commissioning production obligations on the Group which, if not met, may lead the Commonwealth Government to require the Group to re-pay all or part of the grant funds received.

In September 2009, the Group 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 were entered into and will continue and, until a formal resolution can be made, the terms of the current Funding Deed have been put on hold. The Commonwealth Government has not notified the Group of any requirement to repay all or part of the grant funds received.

Contingent Liability – Deferred Consideration for Acquisition of Biofuels Producers Ltd

A further payment to holders of the convertible notes may be triggered subject to certain criteria being achieved. Earn-out payments can be made to the noteholders if the plant at Barnawartha achieves production levels greater than 43.5 million litres per annum in each of the first three years from 1 June 2011. These payments will be 16.33 cents per litre for each litre of production in excess of 43.5 million litres per annum for each year the excess is achieved. Should the average level of production over the first three years from 1 June 2011 exceed 49.3 million litres per annum, the potential earn-out payments period will extend for a further two years, taking the earn out program to five years. The likelihood of these facts and circumstances are still being determined by the company and will be measured as part of the provisional accounting period adjustments.

Contingent Asset – Picton land sale deferred consideration

In September 2009, the Group sold its land at the Picton site as part of a wider agreement for the development of an industrial development in the area with additional deferred consideration being contingent on the successful sub-division of the land by the purchaser. If formal sub-division of the land is completed, the Group will become the beneficiary of an asset in the form of one of the sub-divided lots or additional proceeds from the sale of the lot. The nature of the deferred consideration is at the option of the purchaser once sub-division has occurred.

10. Subsequent events

Subsequent to the end of the review period, the Group's insurers have confirmed that they have accepted indemnity for the damage caused by the fire that broke out at the Largs Bay facility in South Australia on 24 December 2011, subject to the applicable terms and conditions of that insurance policy. The plant is insured for both material damage and business interruption.

There has not been any other matter or circumstance that has arisen since the end of the financial period, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

Independent Auditor's Review Report to the Members of Australian Renewable Fuels Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Renewable Fuels Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2011, and the condensed consolidated statement of comprehensive income, the condensed consolidated cash flow statement and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 6 to 16.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Renewable Fuels Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Australian Renewable Fuels Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 1 in the financial report which indicates that the consolidated entity incurred a net loss attributed to owners of the parent $4,720,841 with net cash outflows from operating activities of $5,200,193 during the half year ended 31 December 2011 and, as of that date, the consolidated entity's current liabilities exceeded its total assets by $11,293,461. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the consolidated entity to continue as a going concern and therefore, it may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Sanders

Ian Sanders
Partner
Chartered Accountants
Melbourne, 29 February 2011