# AUSTRALIAN RENEWABLE FUELS LIMITED

**ABN 66 096 782 188**

**Annual financial report for the year ended 30 June 2011**

# LETTER FROM THE CHAIRMAN AND MANAGING DIRECTOR

Dear Shareholders,

The year ending 30 June 2011 has been a year with its own set of unique challenges, ranging from overall uncertainty in global energy markets to historically high feedstock prices. The Group has, however, achieved certain milestones during the year which have laid a solid foundation for the future. The highlights included the highest annual Sales levels since 2007, contracted alternate feedstock arrangements and putting in place the framework for ARF to become the largest Australian producer of Biodiesel with a strong national footprint.

In addition to the above developments, ARF raised an additional $11.4m in Capital during the year, which enabled it to settle all debt whilst retaining a cash balance of $3.5m at 30 June 2011.

Robert Scott and Charles Gullotta resigned as Directors on 30 June 2011, and the Board would like to thank them both for the contributions made during their respective tenures. Philip Garling and Michael Costello joined the Board in May 2011, and we look forward to realising the benefit of their extensive experience.

During the year, ARF entered into a contract with Global Biofuels Trading Inc. (GBTI), as announced on 19 October 2010.The main elements of the contract are as follows:

a) ARF to supply minimum of 30m litres of Biodiesel, per annum, for export to GBTI.

b) GBTI to supply feedstock in the form of Recycled Mill Oil (RMO) to ARF, at a fixed price plus cartage.

c) The agreement allows for ARF to call upon 150m litres of RMO from GBTI, per annum.

d) The agreement is based on a 5 year term with an option to renew for another 5 years.

This agreement gives ARF access to 150m liters of feedstock at a cost of approximately 40% of recent historic feedstock prices and provides a guaranteed off take of Biodiesel of at least 30m litres per annum for export. This represents a clear advantage in the market and addresses a variable risk element which has been omnipresent in the past. The Group remains committed to avoiding feedstock which interferes with the food chain or has an adverse environmental impact.

The Group also announced the proposed acquisition of Biodiesel Producers Limited (BPL) on 24 January 2011.

The structure of the acquisition is predominantly a non-cash assumption of BPL's existing convertible note debt of $13.65m (with a redemption value of $21million) by Australian Renewable Fuels Limited with the payment and structure of the notes linked to the future performance of BPL's plant over a 5 year period. This will give the Group access to the Eastern Seaboard and a truly National presence. In addition, the acquisition price will include the buyout of minority equity interest shareholders of approximately $2.8m.

An extraordinary general meeting was held on the 28th June 2011 where shareholders of the Group approved the issue of secured convertible notes for the BPL deal.

The acquisition remains subject to a number of conditions including completion of the note purchase agreement, the company obtaining a finance facility of $12million and key BPL management and 50% of BPL employees accepting offers of employment by Australian Renewable Fuels Adelaide Pty Ltd, and other due diligence matters.

The current completion date is 31 October 2011.

The addition of BPL to the group will increase our production capacity from 90m liters per annum to 150m liters per annum, thus making us the largest Biodiesel producer in Australia.

Other macro enviroment developments included the following:

a) The Federal Government's decision to move forward with a carbon reduction scheme. This should benefit products which help reduce the carbon footprint and which provide a sustainable alternative energy resource . We believe Biodiesel is a key component in this approach, noting that Australia consumed 19billion liters of mineral Diesel last year.

b) The Federal Government's announcement of an additional excise on imported Biodiesel from the USA, effectively addressing the "cheap dumping" of Biodiesel which was flooding the market.

c) The introduction of the Alternative Fuels Legislation by the Federal Government in May 2011 which extend the current arrangements for Biofuels for the next 10 years. The arrangements were to be amended effective 1 December 2011, but the resulting outcome is that locally produced Biodiesel will effectively now not be paying excise for the next 10 years whilst imported product will.

With the completion of the BPL deal imminent , the ramp up of RMO as a cost efficient supply feed stock that allows the ramp up of the Group's operations , and increasingly positive trends in the macro-enviroment.

The directors believe that a solid foundation has now been laid for Australian Renewable Fuels to embark on a new era of substantial growth for Australian Renewable Fuels. We wish to thank you for your ongoing support and look forward to a year of increased prosperity.

**Robert N Scott**

Chairman

**Tom Engelsman**

Managing Director

# Directors' report

The directors of Australian Renewable Fuels Limited present their annual financial report of the Company for the year ended 30 June 2011. The directors report as follows:

The names and particulars of the directors of the Company during or since the end of the financial year are:

| Name | Particulars |
|---|---|
| Mr Andrew White | Mr White was appointed to the Board on 1 July 2011.Andrew White was most recently a Director and Chief Operating Officer of Infrastructure Capital Group Limited, an investment management business with over $1 billion of equity funds under management and invested in infrastructure across Australia.<br><br>He led Biodiesel Producers Limited (BPL), an unlisted public company that manufactures biodiesel from tallow and waste cooking oil as the Managing Director. With contracts established with Shell, Finemores, Border Express, Greenfreight and other large users of fuels, BPL's acquisition has ensured that ARFuels geographic reach extends into the east-coast of Australia.<br><br>Mr White has sat on the Board and Management Committees for various large energy projects including Neerabup Power Station (330mW), Kwinana Power Station (320mW) and the Esperance Energy Project (336km Kambalda to Esperance Gas Pipeline and energy station).<br><br>With a chartered accounting background, Mr White also worked for 8 years with Arthur Andersen and 9 years in senior executive roles including Finance Director and Strategic Planning Director with Mars Inc in Australia and New Zealand. |
| Mr Michael Costello | Mr Costello was appointed as non-executive director on 5 May 2011. Before his appointment to ActewAGL in 2008, Michael was Managing Director, ACTEW Corporation, a member of the ACTEW Board and a member of the ActewAGL Joint Venture Partnerships Board from 2003. Michael is a member of the Advisory Council of the Australian National University's Crawford School of Economics and Government. Michael was previously Deputy-Managing Director of the Australian Stock Exchange. He was Chief of Staff to the Hon Kim Beazley AC, the former Labor Opposition Leader and to the Hon Bill Hayden AC when he was the Minister for Foreign Affairs. Michael has been the Secretary of the Department of Foreign Affairs and Trade and the Department of Industrial Relations. He has held a number of diplomatic posts including Ambassador to the United Nations.<br><br>Michael holds degrees in arts and law. He is a Fellow of the Australian Institute of Company Directors. He received an Order of Australia (AO) in 1996 for international relations. |
| Mr Philip Garling | Mr Garling was appointed as non-executive director on 5 May 2011. Phil has 25 years experience in Infrastructure Construction, Development, Operations and Investment Management, including Chief Executive Officer of Tenix Infrastructure. Prior to that he was a long term Senior Executive at Lend Lease Corporation culminating in his role as Chief Executive of Lend LeaseCapital Services, the Development Capital, Infrastructure Development and Project Finance arm of Lend Lease Corporation. Phil is a former member of the Federal Government Environment Industry Action Agenda, and a former Councilor of Environment Business Australia. Phil has a Bachelor of Building from the University of NSW. He also completed an Advanced Management Program at the Australian Institute of Management and an Advanced Diploma from the Australian Institute of Company Directors and is a fellow of the AICD. Phil was the foundation Chair and remains a Director of the ASX listed DUET Group. |
| Mr Robert Scott | 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 corporate advisor. He was previously an international partner of Arthur Andersen and a partner of KMG Hungerfords and currently consults to Gooding Partners 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. He resigned as a director on 30 June 2011. |

# Directors' report *(continued)*

| | |
|---|---|
| Mr Julien Playoust | Mr. Playoust was appointed as non-executive director on 2 April 2009. He is Managing Director of AEH Group. His professional career includes Andersen Consulting and Accenture. He is a Non-executive Director of Tatts Group Limited and Chairman of MCM Entertainment Group Limited. He is a Director of private equity company MGB Equity Growth Pty Limited, Trustee of the Art Gallery NSW Foundation, Director of the National Gallery of Australia Foundation and on the Advisory Board of The Nature Conservancy. He is a member of the AICD, Australian Institute of Management, Royal Australian Institute of Architects and The Executive Connection. He holds a MBA from UNSW, Bachelor of Architecture and Bachelor of Science from Sydney University and a Company Director Course Diploma from the AICD. |
| Mr Charles Gullotta | 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, and the Chairman of Style Limited. Mr Gullotta is the Chairman of the Group's Audit Committee. He resigned as a director on 30 June 2011. |
| Mr Tom Engelsman | 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. |

**Directorships of other listed companies**

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

| Name | Company | Status * |
|---|---|---|
| Robert Scott | Bio-MD Limited | |
| | Amadeus Energy Limited | |
| | Homeloans Limited | |
| | Neptune Marine Services Limited | |
| | CGA Mining Limited | |
| | Sandfire Resources NL | |
| | New Guinea Energy Limited | resigned May 2009 |
| Andrew White | - | |
| Michael Costello | - | |
| Philip Garling | Duet Investment Holdings Limited | |
| Tom Engelsman | - | |
| Julien Playoust | Tatts Group Limited | |
| | MCM Entertainment Group Limited | |
| Charles Gullotta | Style Limited | |

** Current directorship unless otherwise noted*

# Directors' report *(continued)*

**Shareholdings**

The following table sets out key management personnel's relevant interests in shares and options of the Company as at the date of this report.

Each option when exercised entitles the holder to one ordinary share.

| Directors and senior management | Number of fully paid ordinary shares | Number of Options |
|---|---|---|
| **Directors** | | |
| Andrew White | - | - |
| Michael Costello | - | - |
| Philip Garling | - | - |
| Robert Scott | 4,134,639 | 9,134,639 |
| Tom Engelsman | - | 30,000,000 |
| Julien Playoust | 203,545,809 | 131,418,323 |
| Charles Gullotta | 5,666,666 | 10,066,666 |
| **Senior Management** | | |
| Stephan Scheffer | - | 7,500,000 |
| William Day | - | 3,750,000 |
| Emil de Graaff | 1,371,428 | 453,333 |

During and since the end of the financial year an aggregate of 7,500,000 share options (2010: 50,000,000) were granted to the following officer of the company as part of their remuneration:

| Directors and senior management | Number of options granted | Issuing entity | Number of ordinary shares under option |
|---|---|---|---|
| **Directors** | | | |
| Michael Costello | - | - | - |
| Philip Garling | - | - | - |
| Robert Scott | - | - | - |
| Tom Engelsman | - | - | - |
| Julien Playoust | - | - | - |
| Charles Gullotta | - | - | - |
| **Senior Management** | | | |
| Stephan Scheffer | 7,500,000 | Australian Renewable Fuels Limited | 7,500,000 |
| William Day | - | - | - |
| Emil de Graaff | - | - | - |

## Directors' report *(continued)*

### Directors' meetings

The number of Directors' meetings (including meetings of Committees of Directors) and the number of meetings attended by each of the Directors of the Company held during the financial year. During the financial year, 13 Board meetings and 2 Audit Committee meetings were held during the period.

| | Board of Directors | | Audit Committee | | Remuneration Committee | |
|---|---|---|---|---|---|---|
| **Name** | **Held** | **Attended** | **Held** | **Attended** | **Held** | **Attended** |
| Robert Scott | 13 | 13 | 2 | 2 | 4 | 3 |
| Tom Engelsman | 13 | 13 | - | - | 4 | 2 |
| Julien Playoust | 13 | 13 | 2 | 2 | 4 | 4 |
| Charles Gullotta | 13 | 13 | 2 | 2 | 4 | 3 |
| Andrew White | - | - | - | - | - | - |
| Michael Costello | 13 | 2 | - | - | 4 | 2 |
| Philip Garling | 13 | 2 | - | - | 4 | 2 |

In addition to the above, 2 Governance and Nomination Committee meetings were held; both were attended by Julien Playoust, Robert Scott and Tom Engelsman. Michael Costello and Philip Garling attended all meetings for which they were eligible.

### Company secretary

The names and particulars of the Company Secretaries during or since the end of the financial year are:

| **Name** | |
|---|---|
| Stephan Scheffer | Mr Stephan Scheffer was appointed as Company Secretary on 15 November 2010 and resigned on 11 August 2011 |
| Alwyn Davey | Mr Alwyn Davey resigned as Company Secretary on 15 November 2010 |
| Andrew Metcalfe | Mr Andrew Metcalfe was appointed as Company Secretary on 11 August 2011 |

### Principal activities

The principal activities continued to be the production and sale of Biodiesel. The production capacity remains at 90m liters per annum with another 60m to come online in the new year, with the addition of the plant at Barnawartha(BPL).

### Review of operations

The consolidated loss attributable to equity holders of Australian Renewable Fuels Limited for the year ending 30 June 2011 was $8,063,938 (2010: $3,283,202 loss).The 2010 figure included a profit of $2.2m on sale of property.

This year saw Production and Sales more than double on an annual basis, but this was subject to increased Plant Maintenance and Feedstock pricing pressure.

*Financial and corporate.*

A total of $11.4m was raised during the year, in new Share issues, which enabled the Company to settle all its Debt. The balance was utilized to fund various elements of working capital, whilst retaining $3.5m cash in Bank at the end of the year.

*Feedstocks and operations*

Feedstock prices were subject to severe pressure during the year, with the increase in export demand for Tallow being a major contributing factor. This is clearly reflected by the fact that Sales increased by 125%, but commensurately, cost of Sales increased by 143%.

*Sales and marketing*

Sales and Marketing remain a priority with progress having been made in the Mining and Fuel distribution areas. The addition of Barnawartha has given ARF a truly national footprint which bodes well for the future. Positive Federal action on Anti-dumping Legislation, Fuel Tax Legislation and Carbon Reduction Scheme has installed a level of certainty which will benefit the Group going forward.

*Cost management*

The increased production activity for the year exposed areas in both Plants which required Repairs and Maintenance expenditure. Other costs were kept at acceptable levels considering the levels of Production.

*Shares and options*

During the year, $11.4m was raised through the issue of new Shares and Option conversions.

## Directors' report *(continued)*

**Changes in state of affairs**

There have been no significant changes in the state of affairs of the Group at the date of this report other than as already noted.

**Subsequent events.**

There have been no significant subsequent events in the affairs of the Group at the date of this report other than as already noted.

**Future developments**

Disclosure of information regarding likely developments in the operations of the consolidated entity in future years and the expected results of those operations may result in unreasonable prejudice to the consolidated entity and therefore have not been disclosed in this report.

**Environmental regulations**

The consolidated entity's operations are subject to environmental regulation under both Commonwealth and State legislation. There have been no significant known breaches of these regulations by the consolidated entity.

**Dividends**

No dividends have been paid or declared since the start of the year.

**Shares under option or issued on exercise of options**

Details of unissued shares or interest under option as at the date of this report:

| Issuing Entity | Number of shares under option | Class of shares | Exercise price of option | Expiry date of options |
|---|---|---|---|---|
| Australian Renewable Fuels Limited | 425,611,263 | Ordinary | 1 cent | 18 December 2011 |
| Australian Renewable Fuels Limited | 25,000,000 | Ordinary | 1 cent | 18 December 2011 |
| Australian Renewable Fuels Limited | 45,000 | Ordinary | 60 cents | 15 June 2012 |
| Australian Renewable Fuels Limited | 150,000 | Ordinary | 10 cents | 26 March 2013 |
| Australian Renewable Fuels Limited | 190,000 | Ordinary | 10 cents | 22 September 2013 |
| Australian Renewable Fuels Limited | 51,750,000 | Ordinary | 2 cents | 30 September 2014 |

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

| Issuing Entity | Number of shares under option | Class of shares | Amount paid for shares | Amount unpaid |
|---|---|---|---|---|
| Australian Renewable Fuels Limited | 115,809,853 | Ordinary | $1,288,098 | Nil |

**Indemnification of officers and auditors**

The Company has entered into agreements to indemnify all the Directors and Officers named in this report against all liabilities to persons (other than the Company), which arise out of the Directors and Officers conduct unless the liability relates to conduct involving a lack of good faith or is otherwise prohibited by law. The Company has agreed to indemnify the Directors and Officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments

In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

The Company has not during or since the end of the year indemnified or agreed to indemnify an auditor of the Company against a liability incurred as auditor.

# Directors' report *(continued)*

**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 30 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 30 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

(i) all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and

(ii) 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, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

**Auditor's independence declaration**

The auditor's independence declaration is included on page 20 of this report.

## Directors' report *(continued)*

## Remuneration report – audited

This remuneration report, which forms part of the directors' report, sets out information regarding the remuneration of Australian Renewable Fuels Limited's directors and its senior management for the financial year ended 30 June 2011. The prescribed details for each person covered by this report are detailed below under the following headings:

(a) key management personnel details

(b) principles of remuneration

(c) relationship between the remuneration policy and Company performance

(d) remuneration of directors and senior management

(e) key terms of employment contracts.

### (a) Key management personnel

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

*Executive director*

Tom Engelsman

Andrew White (Managing Director – appointed 1 July 2011)

*Non-executive directors*

Julien Playoust

Robert Scott (resigned 30 June 2011)

Charles Gullotta (resigned 30 June 2011)

Michael Costello (appointed 5 May 2011)

Philip Garling (appointed 5 May 2011)

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

Stephan Scheffer (Chief Financial Officer– appointed 31 August 2010)
(Company Secretary – appointed 15 November 2010 resigned 11 August 2011)
Andrew Metcalfe (Company Secretary – appointed 11 August 2011)
William Day (Chief Financial Officer– resigned 31 August 2010)
Emil de Graaff (Operations Manager – appointed 1 December 2009)
Alwyn Davey (Company Secretary – resigned 15 November 2010)

### (b) Principles of remuneration

The Board policy for determining the nature and amount of key management personnel and other remuneration is agreed by the Board of Directors as a whole after review, approval and recommendation by the Remuneration Committee. As a result of the organizational restructure throughout the year, remuneration matters were dealt with both by the Remuneration Committee and by the full board during the 2011 financial year. Matters relating to reconstitution of the Board were also dealt with by the Governance and Nomination Committee and the Board.

The terms 'remuneration' and 'compensation' are used interchangeably throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel comprise the directors of the Company and senior management of the Company.

Compensation levels for key management personnel and other employees of the Company are competitively set to attract and retain appropriately qualified and experienced directors and senior management. The Remuneration Committee obtains independent advice on the appropriateness of compensation packages in the Company given trends in comparative companies, and the objectives of the Company's compensation strategy.

The compensation structures explained below are designed to attract and retain suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account the capability and experience of key management personnel and other employees and the ability of key management personnel and other employees to control areas of their respective responsibilities.

# Directors' report *(continued)*

## Remuneration report – audited *(continued)*

The principles used to determine the nature and amount of remuneration are as follows:

*Alignment to shareholder interests:*

(i) has economic profit as a core component of plan design

(ii) 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

(iii) attracts and retains high calibre executives

*Alignment to the key management members' interests*

(i) rewards capability and experience

(ii) reflects competitive reward for contribution to growth in shareholder wealth

(iii) provides a clear structure for earning rewards

(iv) 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 recommendations to the Board on remuneration and incentive policies actions to 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 2008 Annual General Meeting when shareholders approved a maximum aggregate annual remuneration of $300,000. At the 2009 Annual General Meeting shareholders approved that, for the 2010 year, the cash remuneration of non-executive directors would be $100,000 in total for all Directors which would be supplemented by issuance of an aggregate 15,000,000 options with an exercise price of 2 cents as detailed later in this report,in order to keep the cash remuneration at a relatively low comparable level and to preserve the cash in the business.

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 independent advice and industry benchmarks on 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 (which comprise the fixed remuneration); short term at risk variable 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.

Remuneration is 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 at risk variable 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.

*Variable Remuneration*

The Group's variable remuneration comprises short term and long term incentives. 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.

# Directors' report *(continued)*

## Remuneration report – audited *(continued)*

The short term incentives comprise primarily cash and annual bonuses are paid only if certain Key Performance Indicators (KPI's) are attained in the relevant period as approved by the Remuneration Committee and the Board. Long term incentives comprise cash and/or equity instruments and annual bonuses are paid only if certain KPI's are attained or, where the incentive involves the time-based vesting of options or rights, as approved by shareholders, then on the basis that the employee continues to be employed by the Company and is eligible under the Company's Long Term Incentive Plan.

Actual payments granted to each senior manager depend on the extent to which specific operating targets or KPI's 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 and the Board. Payments made are delivered as a cash bonus in the following reporting period or where an equity component, pursuant to the employment contract terms and as approved by shareholders.

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 criteria are set by the Remuneration Committee and include, but is not limited to:

(i) Financial targets linked to achievement of the Group's annual profit budgets as determined by the board from time to time;

(ii) Strategic initiatives that provide for specific opportunities to be presented to the board by management from time to time such as mergers and acquisitions that are value-accretive, and the successful implementation of those initiatives;

(iii) Corporate development matters including employment, retention and remuneration of core personnel and the relocation of head office;

(iv) Leadership and succession, cultural development and communication activities;

(v) Risk management, including management and monitoring of material business risks. This includes maintaining a good track record in regards to safety and environmental issues.

### (c) Relationship between the remuneration policy and Company performance

The achievement of Company strategic objectives is the key focus of the efforts of the Company, and it is the leadership of the directors and senior management which makes the achievement of this aim possible. As indicated above, over the course of each financial year, the Board, through the Remuneration Committee will review the Company's executive remuneration policy to ensure the remuneration framework remains focused on driving and rewarding executive performance, while being closely aligned to the achievement of Company strategic objectives and the creation of shareholder value.

Shareholder returns are primarily measured by the movement in share price from the start to the end of each financial year. No dividends have been declared in the past five financial years or the current financial year. As the Company remains in the growth phase of its life cycle, shareholder returns do not correlate with revenues and losses reported in any of the recent financial years. Shareholder returns are more dependent on the future expectation of Company performance rather than Company earnings.

The table below sets out summary information regarding the consolidated entity's earnings and movement in shareholder wealth for the five years to 30 June 2011.

| | 30 June 2011 | 30 June 2010 | 30 June 2009 | 30 June 2008 | 30 June 2007 |
|---|---|---|---|---|---|
| Revenue | 6,426,355 | 2,867,263 | 2,006,498 | 5,312,017 | 13,030,302 |
| Net (loss) before tax | (8,063,938) | (3,283,202) | (6,269,779) | (61,822,762) | (44,172,320) |
| Net (loss) after tax | (8,063,938) | (3,283,202) | (6,269,779) | (61,822,762) | (33,567,250) |
| Share price at start of year (cents) | 1.2 | 1.2 | 2.6 | 25.3 | 88.6 |
| Share price at end of year (cents) | 2.2 | 1.1 | 1.2 | 2.6 | 25.3 |
| Dividends paid (cents) | - | - | - | - | - |
| Loss per share from continuing operations (cents) | | | | | |
| Basic | (0.71) | (0.53) | (1.93) | (22.02) | (17.21) |
| Diluted | (0.71) | (0.53) | (1.93) | (22.02) | (17.21) |

# Directors' report *(continued)*

## Remuneration report – audited *(continued)*

### (d) Remuneration of directors and senior management (Company and Consolidated)

| 2011 | Short-term benefits | | | Post-employment | Long-term (equity) incentives | | |
|---|---|---|---|---|---|---|---|
| | Salary & fees | Short term incentives (i) | Non-monetary | Super-annuation contribution | Options expensed in year (ii) | Options as proportion of total remuneration | Total |
| | $ | $ | $ | $ | $ | % | $ |
| **Executive director** | | | | | | | |
| Tom Engelsman | 245,084 | - | - | 20,572 | 185,482 | 41.1 | 451,138 |
| **Non-executive directors** | | | | | | | |
| Robert Scott | 100,000 | - | - | - | 46,505 | 31.7 | 146,505 |
| Julien Playoust | 30,000 | - | | - | 46,505 | 60.8 | 76,505 |
| Charles Gullotta | 70,000 | - | - | - | 46,505 | 39.9 | 116,505 |
| Michael Costello | 6,246 | - | - | - | - | - | 6,246 |
| Philip Garling | 6,246 | - | - | - | - | - | 6,246 |
| **Senior management** | | | | | | | |
| Stephan Scheffer (vi) | 155,833 | - | - | 13,125 | 15,432 | 8.4 | 184,390 |
| William Day (iii) | 98,957 | - | - | 7,554 | 37,180 | 25.9 | 143,691 |
| Emil De Graaff (iv) | 122,278 | - | - | 10,800 | - | - | 133,078 |
| Alwyn Davey (v) | - | - | - | - | - | - | - |
| Lorin Sole (vii) | 42,250 | - | - | - | - | - | 42,250 |
| **Total** | **876,894** | **-** | **-** | **52,051** | **377,609** | | **1,306,554** |

| 2010 | Short-term benefits | | | Post employment | Long-term (equity) incentives | | |
|---|---|---|---|---|---|---|---|
| | Salary & fees | Short term incentives (i) | Non-monetary | Super-annuation contribution | Options expensed in year | Options as proportion of total remuneration | Total |
| | $ | $ | $ | $ | $ | % | $ |
| **Executive director** | | | | | | | |
| Tom Engelsman | 274,163 | - | - | 24,120 | 107,732 | 26.5 | 406,015 |
| **Non-executive directors** | | | | | | | |
| Robert Scott | 40,000 | - | - | - | 27,011 | 40.3 | 67,011 |
| Julien Playoust | 30,000 | - | | - | 27,011 | 47.4 | 57,011 |
| Charles Gullotta | 30,000 | - | - | - | 27,011 | 47.4 | 57,011 |
| Glyn Denison | 2,500 | - | - | - | - | - | 2,500 |
| **Senior management** | | | | | | | |
| William Day (iii) | 138,333 | - | - | 11,550 | 17,956 | 10.7 | 167,839 |
| Emil De Graaff (iv) | 70,289 | - | - | 6,326 | - | - | 76,615 |
| Alwyn Davey (v) | - | - | - | - | - | - | - |
| Max Ger | 10,000 | - | - | - | - | - | 10,000 |
| Lorin Sole (vii) | 56,781 | - | - | 3,597 | - | - | 60,378 |
| Tania Oosterhof | 32,012 | - | - | 2,171 | - | - | 34,183 |
| **Total** | **684,078** | **-** | **-** | **47,764** | **206,721** | | **938,563** |

(i) No short term incentive bonuses were paid during the 2011 financial year (2010: Nil).
(ii) During the 2011 financial year 7,500,000 options were issued to senior management.
(iii) William Day resigned as Chief Financial Officer on 31 August 2010.
(iv) Emil de Graaff commenced as Operations Manager on 1 December 2009.
(v) Alwyn Davey resigned as Company Secretary on 15 November 2010. He is not remunerated directly by the company, but via a service company by which he is employed.
(vi) Stephan Scheffer commenced as Chief Financial Officer on 31 August 2010 and Company Secretary on 15 November 2010.
(vii) Lorin Sole resigned as National Operations Manager on 22 September 2009.

# Directors' report *(continued)*

## Remuneration report – audited *(continued)*

*Equity instruments - options* (note 32)

During the financial year the Board of Directors approved and the company issued 7,500,000 options to senior management. The holders of these options and unallocated shares entitle the holder to acquire one share by way of issue.

*Modification of terms of equity-settled share-based payment transactions*

No terms of equity-settled share-based payment transactions (including options granted as compensation to key management personnel) have been altered or modified by the issuing entity during the reporting period or prior period.

*Analysis of options over equity instruments granted as compensation*

Details of vesting profiles of the options granted as remuneration to each key management person of the Group are summarised in the table below.

| | During the financial year | | | Value of options granted at grant date | Value of options lapsed at the date of lapse |
|---|---|---|---|---|---|
| Name | Number granted | Number vested | Expensed in year | (i), (ii) | (iii) |
| | | | $ | $ | $ |
| **Directors** | | | | | |
| Tom Engelsman | - | 7,500,000 | 185,482 | 441,093 | - |
| Julien Playoust | - | 2,500,000 | 46,505 | 73,516 | - |
| Robert Scott | - | 2,500,000 | 46,505 | 73,516 | - |
| Charles Gullotta | - | 2,500,000 | 46,505 | 73,516 | - |
| **Senior management** | | | | | |
| Stephan Scheffer | 7,500,000 | 750,000 | 15,432 | 43,496 | - |
| William Day | - | 2,500,000 | 37,180 | 73,516 | - |

(i) The value of options granted is recognised in compensation on a straight line basis over the vesting period of the grant, in accordance with Australian accounting standards.
(ii) The fair value of the options at grant date of 0.58 (2010: 1.47) cents per share was based on market price at grant date.
(iii) Value of options lapsing during the period due to the failure to exercise the options before the expiry date

The options were provided at no cost to the recipients. In general, upon vesting, the holder will be entitled to exercise their options and acquire one fully paid ordinary share in the Company for each performance right. 2.0 cents is payable upon exercise of each option by directors and senior management.

The vesting profile for the options granted to Tom Engelsman and William Day is 25% on each of 30 November 2009, 1 October 2010, 1 October 2011 and 16 April 2012.The vesting profile for the options granted to Robert Scott, Julien Playoust and Charles Gullotta is 25% on each of 30 November 2009, 30 June 2010, 31 December 2010 and 30 June 2011. The vesting profile for the options granted to Stephan Scheffer is 10% on of 01 January 2011, 30% on 01 January 2012 and 60% on 01 January 2013.

During the year no directors or senior management exercised any options that were granted to them as part of their compensation.

Including the share-based payments granted during the year as set out above, the details of all share-based payment arrangements in existence for key management during the current and comparative reporting periods are summarized below.

| Option series grant date | Number of options | Expiry date | Exercise price $ | Fair value at grant date $ |
|---|---|---|---|---|
| August 2005 | 300,000 | June 2010 | 1.54 | 0.53 |
| October 2005 | 225,000 | October 2009 | 1.00 | 0.29 |
| July 2007 | 255,000 | June 2012 | 0.60 | 0.03 |
| March 2008 | 5,360,000 | March 2013 | 0.10 | 0.03 |
| September 2008 | 1,500,000 | September 2013 | 0.10 | 0.03 |
| August 2009 | 1,750,000 | September 2014 | 0.02 | 0.01 |
| November 2009 | 50,000,000 | September 2014 | 0.02 | 0.01 |

# Directors' report *(continued)*

## Remuneration report – audited *(continued)*

### (e) Key terms of service agreements

The remuneration and other terms of employment for the Managing Director and senior management are formalized in service agreements. Each of these agreements makes provision for a fixed remuneration component, a short-term cash incentive and options as a long-term incentive. The material terms of the service agreements are set out below.

| Term | Position | Conditions |
|---|---|---|
| Duration of contract | – Managing director and chief financial officer<br>– Operations manager | – 3 years<br>– 2 years |
| Voluntary termination by executive | – Managing director and senior management | – 6 months' notice |
| Termination by Company without cause | – Managing director and senior management | – 6 months' notice |
| Termination by Company for cause | – Managing director and senior management | – Employment may be terminated immediately without notice if the executive commits any act or omission justifying summary dismissal at common law |

Signed in accordance with a resolution of the directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the directors

Tom Engelsman
Director
Melbourne, 28 September 2011

# 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. This Corporate Governance Statement sets out the company's current compliance with the Australian Stock Exchange ("ASX") Corporate Governance Council's Principles and Recommendations, 2nd edition ("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.

**Recommendations**

**1. Lay solid foundations for management and oversight**

***1.1 Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.*** The company discloses the authority limits that are delegated to executives for committing the company to expenditure or binding contract. The Board delegates responsibility for the day-to-day operations and administration of the company within the bounds of these limits. Any matter beyond these limits is referred to the Board for consideration and approval. The magnitude and nature of these delegated limits are reviewed on an ongoing basis.

***1.2 Companies should disclose the process for evaluating the performance of senior executives.*** The performance of and key executives is reviewed regularly against both measurable and qualitative indicators. The performance criteria against which executives are assessed are aligned with the financial and non-financial objectives of the company. Executives whose performance is consistently unsatisfactory may be subject to performance review program to be overseen by the Board.

**2. Structure the Board to add value**

***2.1 A majority of the Board should be independent directors.*** 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:

| Name | Position |
|---|---|
| Tom Engelsman | Chairperson, Executive Director (appointed chairperson 1 July 2011) |
| Robert N Scott | Chairperson, Non-Executive Director (resigned 30 June 2011) |
| Charles Gullotta | Non-Executive Director (resigned 30 June 2011) |

The company's Board comprised 4 directors for most of the reporting period. Therefore, there is not a clear majority of independent directors on the Board; however the directors consider that the balance of independent and non-independent directors is appropriate given the size of the Board and the company.

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.

***2.2 The chair should be an independent director.*** Rob Scott, as Chairman, was independent. The Chairman, Tom Engelsman, is now considered an independent director. Subsequent to 30 June 2011, the nominated Chairman elect, Phil Garling, is independent. Due to the size of the company and the board this is deemed acceptable to the directors of the company.

***2.3 The roles of chair and Chief Executive Officer should not be exercised by the same individual.*** The chair and the Chief Executive Officer (Managing Director) are different people.

***2.4 The Board should establish a nomination committee.*** The Board established a Governance and Nomination Committee to deal with reconstitution of the Board and related matters. All non executive directors are members of the Committee and executive directors may attend as ex officio invitees. The committee makes recommendations to the Board 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. The directors consider that this is appropriate given the size of the Board and the company.

## Corporate governance statement *(continued)*

**2.5** ***Companies should disclose the process for evaluating the performance of the Board. Companies should disclose the process for evaluating the performance of the Board.*** The performance of the Board is reviewed as appropriate against both measurable and qualitative indicators in order to maintain alignment with the financial and non-financial objectives of the company. Directors whose performance is consistently unsatisfactory may be asked to retire. During the reporting period, the Board informally reviewed the performance of Board members which was considered appropriate given the given the size of the Board and the company and the restructuring of the organisation that was being undertaken.

**2.6** ***Companies should provide the information indicated in 'Guide to Reporting on Principle 2'.*** All of the information identified in the 'Guide to Reporting on Principle 2' has been satisfied either in the Corporate Governance Statement or the Directors' Report in the Annual Report. The skills, expertise and experience of directors relevant to their positions and their term in office are disclosed in the Directors' Report. The company's corporate governance policy, including the charters for its various Board committees, are made public via the company's website in a clearly marked section.

### 3. Promote ethical and responsible decision-making

**3.1** ***Establish a code of conduct and disclose the code or a summary of the code as to:***

*(a) the practices necessary to maintain confidence in the company's integrity;*

*(b) the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and*

*(c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

The company's suite of corporate governance policies includes its code of conduct policy which provides a framework for decisions and actions in relation to ethical conduct in employment and a whistle-blower policy to provide an avenue for staff to report instances of suspected unethical behaviour. All policies are reviewed regularly to ensure relevance.

**3.2** ***Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.*** The Board has adopted a policy and procedure on dealing in the company's securities by directors, officers and employees which prohibits dealing in the company's securities when those persons possess inside information. It also provides that the written acknowledgement of the chairperson should be obtained prior to trading and that they have been advised by the chairperson that there is no reason to preclude trading, for example, during specific sensitive time periods. A summary of this policy is disclosed on the company's website.

**3.3** ***Companies should provide the information indicated in 'Guide to Reporting on Principle 3'.*** A summary of the company's code of conduct and a summary of the company's securities trading policy have been posted on the company's website.

### 4. Safeguard integrity in financial reporting

**4.1** ***The Board should establish an 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 Group. This includes internal controls to deal with 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.

**4.2** ***The audit committee should be structured so that it:***

*(a) consists of only non-executive directors;*

*(b) consists of a majority of independent directors;*

*(c) is chaired by an independent chair who is not chair of the Board; and*

*(d) has at least three members.*

During the year, the audit committee comprised:

| ***Name*** | | ***Qualifications*** |
|---|---|---|
| Robert N Scott | retired 30 June 2011 | Chartered Accountant - FCA & MAICD |
| Charles Gullotta | Chairman retired 30 June 2011 | Certified Practicing Accountant |
| Philip Garling | Chairman commenced 01 July 2011 | |
| Michael Costello | commenced 01 July 2011 | |
| Julien Playoust | commenced 01 July 2011 | |

## Corporate governance statement *(continued)*

In accordance with the definition of independence described in Recommendation 2.1 above, and the materiality thresholds set, all of the directors serving on the audit committee throughout the year are considered to be independent and all are non-executive directors.

The committee is currently chaired by Mr Philip Garling who is not chair of the Board. Mr Tom Engelsman is currently the chair of the Board. Prior to this the chair of the committee was Mr Charles Gullotta and Mr Robert Scott was the chair of the Board. Given the size of the Board during that period, the Board was satisfied that this was acceptable at the time.

The committee has three members, which is the recommended minimum of three.

***4.3 The audit committee should have a formal charter.*** The committee has established a formal charter which is disclosed on the company's website.

***4.4 Companies should provide the information indicated in 'Guide to Reporting on Principle 4'.*** All of the information identified in the 'Guide to Reporting on Principle 4' has been satisfied either in the Corporate Governance Statement or the Directors' Report in the Annual Report.

***5.*** **Make timely and balanced disclosure**

***5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance.*** The company has a continuous disclosure policy in place to ensure the factual presentation of the company's financial position and market-sensitive information.

***5.2 Companies should provide the information indicated in 'Guide to Reporting on Principle 5'.*** A summary of the company's continuous disclosure policy is disclosed on the company's website.

***6.*** **Respect the rights of shareholders**

***6.1 Companies should design a communication policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.*** The company has a shareholders communication policy which aims to ensure that the shareholders are informed of all major developments affecting the company. All shareholders receive the company's annual report, and may also request copies of the company's half-yearly reports. The company also encourages full participation of shareholders at its annual general meeting and at extraordinary general meetings when called, including providing the opportunity to table questions for the directors and auditors in advance of the meetings.

***6.2 Companies should provide the information indicated in 'Guide to Reporting on Principle 6'.*** The company maintains a website on which it makes available: company announcements; shareholder meeting notices and explanatory materials; financial information and annual reports. Shareholders may register to receive information updates by email from the company.

***7.*** **Recognise and manage risk**

***7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.*** 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.

***7.2 The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively.*** The company has established a risk management policy which sets out a framework for a system of risk management and internal compliance and control, whereby the Board delegates day-to-day management of risk to the managing director. The managing director, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the Board on these risks and the extent to which it believes they are being adequately managed.

***7.3 The Board should disclose whether it has received assurances from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295 of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.*** The Board has received a joint declaration from the managing director and the chief accounting officer, being officers with primary responsibility as defined by section 295 of the Corporations Act, assuring that the declaration provided in accordance with section 295 of the Corporations Act is founded on a sound system of risk management and internal control and that the system, to the extent that they relate to financial reporting, is operating effectively in all material respects.

## Corporate governance statement *(continued)*

***7.4 Companies should provide the information indicated in 'Guide to Reporting on Principle 7'.*** A summary of the company's risk management policy is disclosed on the company's website.

***8.*** **Remunerate fairly and responsibly**

***8.1 The Board should establish a remuneration committee.*** 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: Julien Playoust (chairman) and Robert Scott and subsequent to their appointment as Directors , Michael Costello and Phil Garling. Details of the number of meetings of the remuneration committee held during the year and the attendees at those meetings are contained within the Director's Report.

***8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executives.*** The maximum aggregate remuneration of non-executive directors was determined at the 2008 annual general meeting of shareholders to be $300,000 per year. At the 2009 Annual General Meeting shareholders approved that, for the 2010 year and subsequent year, the cash remuneration of non-executive directors would be $100,000 which would be supplemented by issuance of an aggregate 15,000,000 options with an exercise price of 2 cents as detailed in the 'Remuneration Report (audited)' section of the Directors Report.

***8.3 Companies should provide the information indicated in 'Guide to Reporting on Principle 8'.*** There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors. The remuneration committee has established a formal charter which is disclosed on the company's website. The company has not yet adopted a formal policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes. All of the other information identified in the 'Guide to Reporting on Principle 8' has been satisfied either in the Corporate Governance Statement or the Directors' Report in the Annual Report.

Deloitte.

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The Board of Directors
Australian Renewable Fuels Limited
Level 31, 120 Collins Street
MELBOURNE VIC 3000

28th September 2011

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 audit of the financial statements of Australian Renewable Fuels Limited for the year ended 30 June 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 audit; and

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

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Sanders

Ian Sanders
Partner
Chartered Accountant

# Statement of comprehensive income for the financial year ended 30 June 2011

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | Note | $ | $ | $ | $ |
| Revenue from operations | 3 | 6,426,355 | 2,867,263 | - | - |
| Other revenue | 3 | 141,688 | 2,580,179 | 140,344 | 2,564,297 |
| Finance income | 3 | 69,884 | 25,923 | 66,586 | 25,464 |
| Employee benefits expenses | | (2,303,879) | (1,645,450) | (1,267,217) | (731,270) |
| Corporate and administration expenses | | (2,496,479) | (1,985,369) | (2,469,699) | (1,786,201) |
| Plant operating expenses | | (2,182,355) | (1,091,586) | - | - |
| Depreciation and amortisation expenses | 5 | (1,015,948) | (1,064,572) | (37,699) | (43,109) |
| Inventory write off | 4 | (526,697) | - | - | - |
| Impairment of inter-company loans | 4 | - | - | (4,334,255) | 182,054 |
| (Loss) on foreign exchange | 4 | - | - | (142,859) | (161,027) |
| (Loss)/Gain on derivative liabilities | | - | (245,724) | - | (245,724) |
| Consumables and raw materials | | (6,134,842) | (2,516,262) | - | - |
| Finance costs | 6 | (106,063) | (281,324) | (105,584) | (269,407) |
| Loss before tax | | (8,128,336) | (3,356,922) | (8,150,383) | (464,923) |
| Income tax (expense) | 7 | - | - | | - |
| **Loss for the year** | | **(8,128,336)** | **(3,356,922)** | **(8,150,383)** | **(464,923)** |
| **Attributed to:** | | | | | |
| **Owners of the parent** | | (8,063,938) | (3,283,202) | (8,150,383) | (464,923) |
| **Non-controlling interest** | | (64,398) | (73,720) | - | - |
| | | **(8,128,336)** | **(3,356,922)** | **(8,150,383)** | **(464,923)** |
| **Other comprehensive income** | | | | | |
| Exchange reserve arising on translation of foreign operations | | 2,447 | 5,300 | - | - |
| **Other comprehensive income for the year net of tax** | | **2,447** | **5,300** | - | - |
| **Total comprehensive income for the year** | | **(8,125,889)** | **(3,351,622)** | **(8,150,383)** | **(464,923)** |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the parent | | (8,061,491) | (3,277,902) | (8,150,383) | (464,923) |
| Non-controlling interest | 21 | (64,398) | (73,720) | | - |
| | | **(8,125,889)** | **(3,351,622)** | **(8,150,383)** | **(464,923)** |
| **Gain/(Loss) per share** | | | | | |
| *From continuing and continued operations:* | | | | | |
| Basic (cents per share) | 31 | (0.71) | (0.53) | | |
| Diluted (cents per share) | 31 | (0.71) | (0.53) | | |
| *From discontinued operations:* | | | | | |
| Basic (cents per share) | | | - | | |
| Diluted (cents per share) | | | - | | |

Notes to the financial statements are included on pages 26 to 58.

# Statement of financial position as at 30 June 2011

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | Note | 2011 $ | 2010 $ | 2011 $ | 2010 $ |
| **Current assets** | | | | | |
| Cash and cash equivalents | | 3,528,363 | 778,789 | 2,791,548 | 418,957 |
| Trade and other receivables | 8 | 871,945 | 490,978 | 116,383 | 49,827 |
| Inventories | 9 | 1,741,747 | 963,117 | - | - |
| Other | 10 | 436,621 | 738,134 | 290,579 | 643,772 |
| **Total current assets** | | **6,578,676** | **2,971,018** | **3,198,510** | **1,112,556** |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 11 | 5,212,986 | 5,835,165 | 13,295 | 8,883 |
| Intangible assets | 12 | 90 | 32,914 | 90 | 32,914 |
| Other financial assets | 13 | - | - | 7,180,064 | 7,812,158 |
| Other assets | 14 | 720,930 | 804,758 | - | - |
| **Total non-current assets** | | **5,934,006** | **6,672,837** | **7,193,449** | **7,853,955** |
| **Total assets** | | **12,512,682** | **9,643,855** | **10,391,959** | **8,966,511** |
| **Current liabilities** | | | | | |
| Trade and other payables | 15 | 2,812,832 | 1,965,222 | 1,057,787 | 1,352,783 |
| Borrowings | 17 | - | 2,700,000 | - | 2,700,000 |
| Provisions | 16 | 182,010 | 121,361 | 66,299 | 42,729 |
| **Total current liabilities** | | **2,994,842** | **4,786,583** | **1,124,086** | **4,095,512** |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 15 | - | 10,800 | - | - |
| **Total non-current liabilities** | | **-** | **10,800** | **-** | **-** |
| **Total liabilities** | | **2,994,842** | **4,797,383** | **1,124,086** | **4,095,512** |
| **Net assets** | | **9,517,840** | **4,846,472** | **9,267,873** | **4,870,999** |
| **Equity** | | | | | |
| Issued capital | 18 | 114,576,984 | 104,561,260 | 114,576,984 | 104,561,260 |
| Reserves | 19 | 4,008,038 | 1,224,058 | 4,226,599 | 1,695,066 |
| Retained earnings | 20 | (108,929,064) | (100,865,126) | (109,535,710) | (101,385,327) |
| Equity attributable to owners of the company | | 9,655,958 | 4,920,192 | 9,267,873 | 4,870,999 |
| Non-controlling interests | 21 | (138,118) | (73,720) | - | - |
| **Total equity** | | **9,517,840** | **4,846,472** | **9,267,873** | **4,870,999** |

Notes to the financial statements are included on pages 26 to 58.

# Statement of changes in equity
# for the financial year ended 30 June 2011

**Consolidated**

| | Issued capital and contributed equity | Employee share option reserve | Foreign currency translation reserve | General options reserve | Other reserve | Accumulated losses | Attributable to owners of the parent | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | | | $ | $ | $ | $ |
| **Balance at 1 July 2009 – *As restated*** | **102,639,583** | **401,597** | **(476,308)** | **-** | **-** | **(97,581,924)** | **4,982,948** | **-** | **4,982,948** |
| Movement in foreign exchange values | - | - | 5,300 | - | - | - | 5,300 | - | 5,300 |
| Loss for the year | - | - | - | - | - | (3,283,202) | (3,283,202) | (73,720) | (3,356,922) |
| **Total comprehensive income for the period** | - | - | 5,300 | - | - | (100,865,126) | (3,277,902) | (73,720) | (3,351,622) |
| Shares issued during the year | 1,775,371 | - | - | - | - | - | 1,775,371 | - | 1,775,371 |
| Options issued during the year | - | - | - | 1,548,730 | - | - | 1,548,730 | - | 1,548,730 |
| Recognition of share-based payments | - | 213,979 | - | - | - | - | 213,979 | - | 213,979 |
| Reversal from forfeiture of options | - | (390,414) | - | - | - | - | (390,414) | - | (390,414) |
| Exercise of options | 260,438 | - | - | (78,826) | - | - | 181,612 | - | 181,612 |
| Share issue costs | (114,132) | - | - | - | - | - | (114,132) | - | (114,132) |
| **Balance at 30 June 2010** | **104,561,260** | **225,162** | **(471,008)** | **1,469,904** | **-** | **(100,865,126)** | **4,920,192** | **(73,720)** | **4,846,472** |
| | | | | | | | | | |
| **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** |
| Movement in foreign exchange values | - | - | 2,447 | - | | - | 2,447 | - | 2,447 |
| Loss for the year | - | - | - | - | - | (8,063,938) | (8,063,938) | (64,398) | (8,128,336) |
| **Total comprehensive income for the Period** | - | - | 2,447 | - | - | (8,063,938) | (8,061,491) | (64,398) | (8,125,889) |
| Shares issued during the year | 5,027,714 | - | - | - | - | - | 5,027,714 | - | 5,027,714 |
| Options issued during the year | - | - | - | 4,492,920 | - | - | 4,492,920 | - | 4,492,920 |
| Recognition of share-based payments | - | 386,266 | - | - | - | - | 386,266 | - | 386,266 |
| Advances from GBTI | - | - | - | - | 250,000 | - | 250,000 | - | 250,000 |
| Exercise of options | 5,638,193 | - | - | (2,347,653) | - | - | 3,290,540 | - | 3,290,540 |
| Share issue costs | (650,183) | - | - | - | - | - | (650,183) | - | (650,183) |
| **Balance at 30 June 2011** | **114,576,984** | **611,428** | **(468,561)** | **3,615,171** | **250,000** | **(108,929,064)** | **9,655,958** | **(138,118)** | **9,517,840** |

Notes to the financial statements are included on pages 26 to 58.

# Statement of changes in equity
# for the financial year ended 30 June 2011

**Company**

| | Issued capital and contributed equity | Employee share option reserve<br>$ | General options reserve<br>$ | Accumulated losses<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **Balance at 1 July 2009 – *As restated*** | **102,639,583** | **401,597** | **-** | **(100,920,404)** | **2,120,776** |
| Loss for the year | - | - | - | (464,923) | (464,923) |
| **Total comprehensive income for the period** | **-** | **-** | - | (464,923) | (464,923) |
| Shares issued during the year | 1,775,371 | - | - | **-** | 1,775,371 |
| Options issued during the year | **-** | - | 1,548,730 | **-** | 1,548,730 |
| Recognition of share-based payments | **-** | 213,979 | - | **-** | 213,979 |
| Reversal from forfeiture of options | **-** | (390,414) | - | **-** | (390,414) |
| Exercise of options | 260,438 | - | (78,826) | **-** | 181,612 |
| Share issue costs | (114,132) | - | - | **-** | (114,132) |
| **Balance at 30 June 2010** | **104,561,260** | **225,162** | **1,469,904** | **(101,385,327)** | **4,870,999** |
| | | | | | |
| **Balance at 1 July 2010** | **104,561,260** | **225,162** | **1,469,904** | **(101,385,327)** | **4,870,999** |
| Loss for the year | - | - | - | (8,150,383) | (8,150,383) |
| **Total comprehensive income for the period** | **-** | **-** | - | (8,150,383) | (8,150,383) |
| Shares issued during the year | 5,027,714 | - | - | - | 5,027,714 |
| Options issued during the year | - | - | 4,492,920 | - | 4,492,920 |
| Recognition of share-based payments | - | 386,266 | - | - | 386,266 |
| Exercise of options | 5,638,193 | - | (2,347,653) | - | 3,290,540 |
| Share issue costs | (650,183) | - | - | - | (650,183) |
| **Balance at 30 June 2011** | **114,576,984** | **611,428** | **3,615,171** | **(109,535,710)** | **9,267,873** |

Notes to the financial statements are included on pages 26 to 58.

## Cash flow statement
## for the financial year ended 30 June 2011

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | Note | $ | $ | $ | $ |
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | 6,849,863 | 3,160,404 | 234 | 66,371 |
| Receipts from R&D grant | | 357,768 | - | 357,768 | - |
| Payments to suppliers and employees | | (13,882,539) | (8,723,847) | (3,448,654) | (2,729,575) |
| Interest paid | | (169,789) | (19,761) | (169,310) | (7,844) |
| Net cash (used in) operating activities | 25 | (6,844,697) | (5,583,204) | (3,259,962) | (2,671,048) |
| **Cash flows from investing activities** | | | | | |
| Interest received | | 85,604 | 5,924 | 82,306 | 5,465 |
| Proceeds from sale of assets | | - | 2,910,919 | - | 2,910,919 |
| Payment for prepaid lease on land | | - | (780,000) | - | - |
| Payment for plant and equipment | | (142,640) | (64,479) | (9,503) | (8,356) |
| Amounts advanced to controlled entities | | - | - | (3,845,020) | (4,739,854) |
| Net cash provided by / (used) in investing activities | | (57,036) | 2,072,364 | (3,772,217) | (1,831,826) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of shares | | 11,405,704 | 2,435,062 | 11,405,704 | 2,435,062 |
| Proceeds from borrowings | | - | 2,700,000 | - | 2,700,000 |
| Advances from GBTI | | 250,000 | - | - | - |
| Payment on loans from related parties | | (1,350,751) | (100,000) | (1,350,751) | (100,000) |
| Payments for share issue costs | | (650,183) | (114,132) | (650,183) | (114,132) |
| Finance lease payments | | (5,910) | (31,544) | - | - |
| Net cash provided by financing activities | | 9,648,860 | 4,889,386 | 9,404,770 | 4,920,930 |
| **Net increase / (decrease) in cash and cash equivalents** | | 2,747,127 | 1,378,546 | 2,372,591 | 418,056 |
| **Cash and cash equivalents at the beginning of the financial year** | | 778,789 | (605,057) | 418,957 | 901 |
| **Effect of movement in exchange rates on cash balances** | | 2,447 | 5,300 | - | - |
| **Cash and cash equivalents at the end of the financial year** | | **3,528,363** | **778,789** | **2,791,548** | **418,957** |

Notes to the financial statements are included on pages 26 to 58.

# Notes to the financial statements
# for the financial year ended 30 June 2011

## 1. Summary of accounting policies

### Statement of compliance

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

The financial report includes the separate financial statements of the Company and the consolidated financial statements of the Group.

The financial report has been prepared in accordance with Accounting Standards and Interpretations. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

### Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. 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 Group has retained the presentation and classification of items in the financial statements from one period to the next unless:

(i) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in AASB 108; or

(ii) an Australian Accounting Standard requires a change in presentation.

The financial statements were authorised for issue by the directors on 26 September 2011.

### Going concern

The Group incurred a loss after tax attributable to equity holders of the company of $8,061,491 (2010:$3,277,902) and net cash outflows from operating activities of $6,844,697 (2010:$5,583,204) for the year ended 30 June 2011.The loss for the previous year included a gain on the sale of the Picton land of $2,231,347; hence this year's loss must be seen in context. 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, due to the following reasons:

(i) The exercise of options in July 2011 raising net cash of $1.1m;

(ii) A proposed underwritten exercise of options which is expected to generate cash of $4.2m in December 2011;

(iii) The proposed acquisition of BPL, making ARF the largest Biodiesel producer in Australia, has given the ARF Group access to a new dimension of trading levels, sustainability and profitability. Acquisition of BPL as noted in note 33 is anticipated to be completed in October 2011.

(iv) Anticipated improvement in operating cash flows and profitability of the Group through the implementation of Recycled Mill Oil (RMO), an alternate feedstock which is contracted at 40% of current feedstock prices for 5 years and a minimum 30m litre p.a. export Sales contract with GBTI. The installation of a pre treatment plant is expected to be completed no later than February 2012.

(v) The combination of elements (i)-(iv) above, allows the directors to be confident that the company and Group will be able to generate net cash inflows during the year.

In the event that the Group is unsuccessful in the items listed above, significant uncertainty would exist as to whether the company and the Group will be able to continue as going concerns. If they are unable to continue as going concerns they may be required to realise their assets and extinguish their liabilities other than in the normal course of business and at amounts different to those stated in the financial report.

No adjustments have been made in the financial report relating to the recoverability and classification of the assets carrying amounts or the amount and classification of liabilities that might be necessary should the company and the Group not continue as going concerns.

### Critical accounting estimates and judgements

In the application of the Group's accounting policies, management is required to make judgments, 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 various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

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

The key critical accounting estimates and judgments are:

(i) Long lived assets have been assessed for indicators of impairment at the end of each reporting period. Assets were considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition of the asset, the estimated future cash flows have been affected.

(ii) Share options issued by the Company have been valued using a Black-Scholes pricing mode.

**1. Summary of accounting policies *(continued)***

**Adoption of new and revised accounting standards**

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period beginning 1 July 2010. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The Group has adopted the following Standards as listed below which only impacted on the Group's financial statements with respect to disclosure:

**Standards affecting presentation and disclosure**

| | |
|---|---|
| Amendments to AASB 7 'Financial Instruments: Disclosure' (adopted in advance of effective date of 1 January 2011) | The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. |
| Amendments to AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' | Disclosures in these financial statements have been modified to reflect the in AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' that the disclosure requirements in Standards other than AASB 5 do not generally apply to noncurrent assets classified as held for sale and discontinued operations. |
| Amendments to AASB 101 'Presentation of Financial Statements' (adopted in advance of effective date of 1 January 2011) | The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. |
| AASB107.56 Amendments to AASB 107 'Statement of Cash Flows' | The amendments (part of AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows in respect of development costs that do not meet the criteria in AASB 138 'Intangible Assets' for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in profit or loss as incurred) have been reclassified from investing to operating activities in the statement of cash flows. |

**Standards and Interpretations adopted with no effect on financial statements**

The following new and revised Standards and interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

| | |
|---|---|
| AASB 2009-8 'Amendments to Australian Accounting Standards - Group Cash-Settled Share-based Payment Transactions' | The application of AASB 2009-8 makes amendments to AASB 2 'Share-based Payment' to clarify the scope of AASB 2, as well as accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award. |

**Standards and interpretations issued not yet effective**

At the date of authorization of the financial statement, the Standards and Interpretations listed below were in issue but not yet effective. The impact of the initial application of the following Standards and Interpretations to the financial report of the consolidated entity and the company have not been assessed:

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| AASB 124 'Related Party Disclosures' (revised December 2009), AASB 2009-12 'Amendments to Australian Accounting Standards' | 1 January 2011 | 30 June 2012 |
| AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)' | 1 January 2013 | 30 June 2014 |
| AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement' | 1 January 2011 | 30 June 2012 |

**1. Summary of accounting policies *(continued)***

| | | |
|---|---|---|
| AASB 2010-5 'Amendments to Australian Accounting Standards | 1 January 2011 | 30 June 2012 |
| AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets' | 1 July 2011 | 30 June 2012 |
| AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets' | 1 January 2012 | 30 June 2013 |
| IFRS 10 Consolidated Financial Statements | 1 January 2013 | 30 June 2013 |
| IFRS 12 Disclosure of Interests in Other Entities | 1 July 2013 | 30 June 2013 |
| IFRS 13 Disclosure of Interests in Other Entities | 1 January 2013 | 30 June 2013 |
| IAS 27 Separate Financial Statements (2011) | 1 January 2013 | 30 June 2013 |
| IAS 19 Employee Benefits (2011) | 1 January 2013 | 30 June 2013 |
| Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) | 1 January 2012 | 30 June 2013 |

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

**(a) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). A controlled entity is any company in which Australian Renewable Fuels Limited has the power to control the financial and operating policies of the entity so as to obtain benefits from its activities.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Company.

**(b) Borrowing costs**

All borrowing costs, except to the extent that they are directly attributable to the acquisition, construction or production of qualifying assets, are recognised in profit or loss in the period in which they are incurred.

**(c) Cash and cash equivalents**

Cash comprises cash on hand, cash at call, short-term deposits and cash in secured fixed term deposits held as security for the provision of bank guarantees. 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.

**(d) Employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

**(e) Financial assets**

Investments are recognised and derecognised on trade date where the purchase order or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

Other financial assets are classified in the following categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest

**1. Summary of accounting policies *(continued)***

**(e) Financial assets *(continued)***

income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, 'at fair value through profit or loss'.

*At fair value through profit or loss*

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial Instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's investment strategy. Upon initial recognition, the attributable transaction costs are recognized in profit or loss when incurred. Financial instruments that are at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

*Available-for-sale financial assets*

Listed investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available for sale monetary items, are recognized as a separate component of equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

*Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method less impairment. Interest is recognised by applying the effective interest rate.

*Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss (FVTPL), are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

**(f) Financial liabilities and equity instruments issued by the Company**

*Interest and dividends*

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments. Borrowings are classified as Financial Liabilities.

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

**(g) Foreign currency**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Australian Renewable Fuels Limited, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

**(h) Impairment of tangible and intangible assets**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified,

corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount 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

**1. Summary of accounting policies *(continued)***

**(i) Impairment of tangible and intangible assets *(continued)***

assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(i) Income taxes**

*Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

*Deferred tax*

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred tax for the period*

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

*Tax consolidation*

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 in its own right.

Australian Renewable Fuels Limited recognises 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.

**(j) Inventories**

Inventories of consumable supplies and spare parts are valued at lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most

**1. Summary of accounting policies *(continued)***

**(j) Inventories *(continued)***

appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution

**(k) Property, plant and equipment**

*Plant and equipment*

Buildings and plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

*Depreciation*

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The depreciation rates used for each class of depreciable assets are:

| | |
|---|---|
| Buildings | 40 years |
| Vehicles | 8 years |
| Furniture, fittings and office equipment | 7 years |
| Computer hardware and manufacturing equipment | 4 years |
| Computer software | 2.5 years |
| Manufacturing plant | 13 years |
| Laboratory equipment | 10 years |

**(l) Intangible assets**

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses (where applicable). Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

**(m) Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**(n) 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 the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**(o) Revenue**

Revenue is measured at the fair value of the consideration received or receivable, and is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

*Sale of goods*

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

(i) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

(ii) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(iii) the amount of revenue can be measured reliably;

(iv) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**1. Summary of accounting policies (continued)**

**(o) Revenue (continued)**

*Rendering of services*

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows;

(ii) installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;

(iii) servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and

(iv) revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

*Royalties*

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

*Interest revenue*

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount of initial recognition.

*Research and development tax concession revenue*

The Australian Federal Government provides the Research and Development Tax Concession scheme which is a broad-based tax concession scheme which allows companies to deduct certain levels of qualifying expenditure incurred on research and development activities in the calculation of their tax obligations. For small companies which satisfy certain turnover and expenditure based criteria, a facility is also provided whereby the concession, which would otherwise be included within their carried-forward tax losses, can be paid in a cash refund. The Group qualifies for this treatment and receives payments. These payments are recognised as revenue at the point at which it is probable that the economic benefits will flow to the Group.

*Government grants*

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates unless there are specific performance conditions which must be met before the loan will convert into a grant, in which case the unconverted portion of the loan will be treated as a loan.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government assistance which does not have conditions attached specifically relating to the operating activities of the entity is recognised in accordance with the accounting policies above.

**(p) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except:

(i) where the amount of GST incurred is not recoverable from the Australian Taxation Office, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) for receivables and payables with are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of receivables or payables.

Cash flows are included in the cast flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the Australian Taxation Authority is classified as operating cash flows.

**1. Summary of accounting policies *(continued)***

**(q) Investments in associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of the acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

**(r) Share-based payments**

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 32.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve.

No amount has been recognised in the financial statements in respect of other equity-settled shared-based payments.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

**(s) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

**(t) Lease payments**

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## 2. Segment information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Information reported to chief operating decision maker for the purposes of resource allocation and assessment of performance is now currently more specifically focused on two key reportable segments. The Group's reportable segments under AASB 8 are therefore:

(a) Western Australia – Biodiesel plant located at Picton

(b) South Australia – Biodiesel plant located at Largs Bay

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

### (i) Revenue and results

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

| | Segment Revenue | | Segment result | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| **Continuing operations** | | | | |
| Western Australia | 2,600,106 | 1,926,602 | (1,422,946) | (1,315,988) |
| South Australia | 3,826,249 | 940,661 | (3,003,620) | (1,503,288) |
| **Total of all segments** | **6,426,355** | **2,867,263** | **(4,426,566)** | **(2,819,276)** |
| Corporate | | | (3,665,591) | (2,513,592) |
| Interest revenue | | | 69,884 | 25,923 |
| Finance costs | | | (106,063) | (281,324) |
| Gain on disposal of land | | | - | 2,231,347 |
| **Total loss before tax** | | | **(8,128,336)** | **(3,356,922)** |

The revenue reported above represents the revenue generated from external customers. There were no intersegment sales in the current year.(2010:Nil)

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

### (ii) Segment assets

| | 2011 | 2010 |
|---|---|---|
| | $ | $ |
| Western Australia | 4,465,067 | 4,878,189 |
| South Australia | 4,390,255 | 3,611,312 |
| Segments total | 8,855,322 | 8,489,501 |
| Unallocated | 3,657,360 | 1,154,354 |
| | **12,512,682** | **9,643,855** |

### (iii) Segment liabilities

| | 2011 | 2010 |
|---|---|---|
| | $ | $ |
| Western Australia | 343,505 | 365,776 |
| South Australia | 1,297,239 | 311,578 |
| Segments total | 1,640,744 | 677,354 |
| Unallocated | 1,354,098 | 4,120,029 |
| | **2,994,842** | **4,797,383** |

**2. Segment information *(continued)***

| | Depreciation and amortisation | | Additions to non-current assets | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| Western Australia | 512,314 | 528,155 | 32,845 | 21,449 |
| South Australia | 465,936 | 493,308 | 70,392 | 34,674 |
| Unallocated | 37,698 | 43,109 | 216,010 | 8,356 |
| | **1,015,948** | **1,064,572** | **319,247** | **64,479** |

**3. Revenue**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| **(a) Revenue from continuing operations** | **6,426,355** | **2,867,263** | **-** | **-** |
| **(b) Finance income** | | | | |
| Bank interest received | **69,884** | **25,923** | **66,586** | **25,464** |
| **(c) Other income** | | | | |
| Grant income | 100,000 | - | 100,000 | - |
| Net gains on disposal of fixed assets and land | - | 2,204,546 | - | 2,204,546 |
| Research and development tax credit | - | 357,768 | - | 357,768 |
| Other | 41,688 | 17,865 | 40,344 | 1,983 |
| | **141,688** | **2,580,179** | **140,344** | **2,564,297** |

**4. Loss for the year**

**(a) Gains and losses**

Loss for the year has been arrived at after crediting/(charging) the following gains and losses:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| (Impairment)/reversal of impairment of loans | - | - | (4,334,255) | 182,054 |
| Net (losses) on disposal of fixed assets | - | (26,801) | - | (26,801) |
| Net gains on disposal of land | - | 2,231,347 | - | 2,231,347 |
| Net (loss) on foreign exchange | - | - | (142,859) | (161,027) |

**(b) Other expenses**

Loss for the year includes the following expenses:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| Consultancy fees | 622,843 | 399,335 | 527,942 | 274,239 |
| Legal and professional fees | 418,876 | 134,682 | 418,876 | 134,682 |
| Strategic project costs | 4,000 | 259,238 | 4,000 | 259,238 |
| Operating leases and rental expense | 96,083 | 83,212 | 21,830 | - |
| Plant utilities | 631,456 | 610,248 | - | - |
| Write down of inventory | 526,697 | - | - | - |
| Employee benefit expense: | | | | |
| Defined contribution plan | 114,522 | 118,228 | 51,001 | 58,308 |
| Salaries and wages | 1,803,091 | 1,313,243 | 829,950 | 458,983 |
| Share based payments (note 32) | 386,266 | 213,979 | 386,266 | 213,979 |

### 5. Depreciation and amortisation expenses

| | Consolidated 2011 $ | Consolidated 2010 $ | Company 2011 $ | Company 2010 $ |
|---|---|---|---|---|
| Property, plant and equipment | 941,210 | 998,216 | 4,875 | 10,285 |
| Intangible assets | 32,824 | 32,824 | 32,824 | 32,824 |
| Other assets | 41,914 | 33,532 | - | - |
| | **1,015,948** | **1,064,572** | **37,699** | **43,109** |

### 6. Finance costs

| | Consolidated 2011 $ | Consolidated 2010 $ | Company 2011 $ | Company 2010 $ |
|---|---|---|---|---|
| Finance charges payable under finance leases and hire purchase contracts | 479 | 2,091 | - | - |
| Interest expense | 105,584 | 106,548 | 105,584 | 96,722 |
| Imputed finance cost on related party loans | - | 172,685 | - | 172,685 |
| | **106,063** | **281,324** | **105,584** | **269,407** |

Weighted average rate of funds borrowed is 3.0% (2010 – 8.0%)

### 7. Income taxes

**Income tax recognized in profit or loss**

| | Consolidated 2011 $ | Consolidated 2010 $ | Company 2011 $ | Company 2010 $ |
|---|---|---|---|---|
| Deferred tax benefit / (expense) relating to the origination and reversal of temporary timing differences and tax losses | - | - | - | - |
| **Total tax benefit / (expense)** | **-** | **-** | **-** | **-** |

The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:

| | Consolidated 2011 $ | Consolidated 2010 $ | Company 2011 $ | Company 2010 $ |
|---|---|---|---|---|
| Loss before tax from continuing operations | (8,128,336) | (3,356,922) | (8,150,383) | (464,923) |
| Loss before tax from discontinued operations | - | - | - | - |
| Accounting loss before income tax | (8,128,336) | (3,356,922) | (8,150,383) | (464,923) |
| Income tax benefit calculated at 30% | (2,438,501) | (1,007,077) | (2,445,116) | (139,477) |
| Effect of expenses that are not deductible in determining taxable income | 307,382 | 489,944 | 307,058 | (314,122) |
| Effect of temporary differences not brought to account | (513,105) | (1,203,250) | 1,154,855 | 156,101 |
| Effect of deferred tax losses not brought to account | 2,738,504 | 1,751,714 | 1,077,483 | 328,829 |
| Share based payments and impairment charges | (94,280) | (31,331) | (94,280) | (31,331) |
| **Income tax credit recognized in profit or loss** | **-** | **-** | **-** | **-** |

**7. Income taxes *(continued)***

**Unrecognized deferred tax balances**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2011 $** | **2010 $** | **2011 $** | **2010 $** |
| The following deferred tax assets have not been brought to account: | | | | |
| - déductible temporary différences | 10,114,318 | 10,410,331 | 18,798,483 | 253,674 |
| - tax losses | 17,874,607 | 15,136,103 | 16,977,938 | 14,274,375 |
| | **27,988,925** | **25,546,434** | **35,776,421** | **14,528,049** |

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

| **Recognized deferred assets and tax liabilities** | Consolidated | | Company | |
|---|---|---|---|---|
| | **2011 $** | **2010 $** | **2011 $** | **2010 $** |
| The following deferred tax balances have been brought to account: | | | | |
| Deferred tax assets | | | | |
| - Provisions | 1,838 | 112,444 | 1,838 | 71,122 |
| - Other assets | - | 886 | - | 42,208 |
| Deferred tax liabilities | | | | |
| - Accrued income | (1,284) | (113,330) | (1,284) | (113,330) |
| - Prepayments | (554) | - | (554) | - |
| | **-** | **-** | **-** | **-** |

**Tax consolidation**

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

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 recognized in the financial statements of each entity in the tax consolidated group.

The allocation of taxes under the tax funding agreement is recognized 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 recognized 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.

**8. Trade and other receivables: current**

| | Consolidated 2011 $ | Consolidated 2010 $ | Company 2011 $ | Company 2010 $ |
|---|---|---|---|---|
| Trade receivables | 524,653 | 340,736 | - | 1,320 |
| Provision for impairment of doubtful debts | (13,168) | (13,168) | - | - |
| GST receivables | 234,756 | 163,410 | 21,870 | 48,507 |
| Other debtors | 125,704 | - | 94,513 | - |
| | **871,945** | **490,978** | **116,383** | **49,827** |

**Aging of past-due but not impaired receivables**

| | Consolidated 2011 $ | Consolidated 2010 $ | Company 2011 $ | Company 2010 $ |
|---|---|---|---|---|
| 90 -150 days | 20,067 | 1,320 | - | 1,320 |
| | **20,067** | **1,320** | **-** | **1,320** |

Trade receivables are non-interest bearing and are generally on 7 to 30 day terms. An allowance is made when there is objective evidence that a trade receivable is impaired.

**9. Inventories**

| | Consolidated 2011 $ | Consolidated 2010 $ | Company 2011 $ | Company 2010 $ |
|---|---|---|---|---|
| Raw materials – at cost | 708,206 | 431,807 | - | - |
| Consumables – at cost | 21,240 | 14,721 | - | - |
| Finished goods – at net realizable value | 993,654 | 494,804 | - | - |
| By products – at net realizable value | 18,647 | 21,785 | - | - |
| | **1,741,747** | **963,117** | **-** | **-** |

**10. Other current assets**

| | Consolidated 2011 $ | Consolidated 2010 $ | Company 2011 $ | Company 2010 $ |
|---|---|---|---|---|
| Income accrued | 4,279 | 377,768 | 4,279 | 377,768 |
| Prepaid insurance | 239,308 | 254,004 | 239,308 | 254,004 |
| Prepayment for raw materials | 88,185 | 58,968 | - | - |
| Reclassified as current asset (Note 14) | 41,914 | - | - | - |
| Other | 62,935 | 47,394 | 46,992 | 12,000 |
| | **436,621** | **738,134** | **290,579** | **643,772** |

## 11. Property, plant and equipment

| Consolidated | Freehold land | Plant and equipment at cost | Total |
|---|---|---|---|
| | $ | $ | $ |
| ***Gross carrying amount*** | | | |
| **Balance at 1 July 2009** | - | **12,340,216** | **12,340,216** |
| Reclassified as intangible asset | - | (164,119) | (164,119) |
| Additions | - | 64,479 | 64,479 |
| Disposals | - | (152,297) | (152,297) |
| **Balance at 1 July 2010** | **-** | **12,088,279** | **12,088,279** |
| Additions | - | 319,247 | 319,247 |
| **Balance at 30 June 2011** | **-** | **12,407,526** | **12,407,526** |
| ***Accumulated depreciation*** | | | |
| **Balance at 1 July 2009** | - | **(5,478,189)** | **(5,478,189)** |
| Reclassified as intangible asset | - | 98,381 | 98,381 |
| Disposals | - | 124,910 | 124,910 |
| Depreciation expense (note 5) | - | (998,216) | (998,216) |
| **Balance at 1 July 2010** | **-** | **(6,253,114)** | **(6,253,114)** |
| Adjustment | - | (216) | (216) |
| Depreciation expense (note 5) | - | (941,210) | (941,210) |
| **Balance at 30 June 2011** | **-** | **(7,194,540)** | **(7,194,540)** |
| ***Net book value*** | | | |
| As at 30 June 2010 | **-** | 5,835,165 | 5,835,165 |
| **As at 30 June 2011** | **-** | **5,212,986** | **5,212,986** |

**11. Property, plant and equipment *(continued)***

| **Company** | **Freehold land** | **Plant and equipment at cost** | **Total** |
|---|---|---|---|
| | **$** | **$** | **$** |
| ***Gross carrying amount*** | | | |
| **Balance at 1 July 2009** | - | **344,038** | **1,023,023** |
| Reclassified as intangible asset | - | (164,119) | (164,119) |
| Additions | - | 8,356 | 8,356 |
| Disposals | - | (152,297) | (152,297) |
| **Balance at 1 July 2010** | - | **35,978** | **35,978** |
| Additions | - | 9,503 | 9,503 |
| **Balance at 30 June 2011** | | **45,481** | **45,481** |
| ***Accumulated depreciation*** | | | |
| **Balance at 1 July 2009** | **-** | **(240,101)** | **(240,101)** |
| Reclassified as intangible asset | - | 98,381 | 98,381 |
| Disposals | - | 124,910 | 124,910 |
| Depreciation expense (note 5) | - | (10,285) | (10,285) |
| **Balance at 1 July 2010** | **-** | **(27,095)** | **(27,095)** |
| Adjustment | - | (216) | (216) |
| Depreciation expense (note 5) | - | (4,875) | (4,875) |
| **Balance at 30 June 2011** | | **(32,186)** | **45,481** |
| ***Net book value*** | | | |
| As at 30 June 2010 | - | 8,883 | 8,883 |
| **As at 30 June 2011** | **-** | **13,295** | **13,295** |

**12. Intangible assets**

| | **Consolidated and Company** | |
|---|---|---|
| | **Manufacturing license** | **Total** |
| | **$** | **$** |
| ***Gross carrying amount*** | | |
| **Balance at 1 July 2009** | **-** | **-** |
| Reclassified as intangible asset (note11) | 164,119 | 164,119 |
| **Balance at 1 July 2010** | **164,119** | **164,119** |
| Additions/disposals | - | - |
| **Balance at 30 June 2011** | **164,119** | **164,119** |
| ***Accumulated amortization*** | | |
| **Balance at 1 July 2009** | **-** | **-** |
| Reclassified as intangible asset | (98,381) | (98,381) |
| Amortization expense (note 5) | (32,824) | (32,824) |
| **Balance at 1 July 2010** | **(131,205)** | **(131,205)** |
| Amortization expense (note 5) | (32,824) | (32,824) |
| **Balance at 30 June 2011** | **(164,029)** | **(164,029)** |
| ***Net book value*** | | |
| As at 30 June 2010 | 32,914 | 32,914 |
| **As at 30 June 2011** | **90** | **90** |

The only intangible asset held by the Group throughout the year was a manufacturing licence which used a useful life of 3 years in the calculation of amortisation.

### 13. Other financial assets: non-current

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| Loans to related parties: (i) | | | | |
| Australian Renewable Fuels Adelaide Pty Ltd | - | - | 32,532,707 | 29,991,797 |
| Australian Renewable Fuels Picton Pty Ltd | - | - | 34,615,489 | 33,441,835 |
| ARF Global Pty Ltd | - | - | 6,513 | 6,513 |
| ASG Analytik Pty Ltd | - | - | 959,533 | 925,162 |
| Besok Fuels Pty Ltd | - | - | 62,986 | - |
| Shelley Nominees | - | - | 6,205 | 6,205 |
| American Renewable Fuels Inc | - | - | 620,337 | 730,097 |
| Less: provision for impairment (ii) | - | - | (61,623,715) | (57,289,460) |
| | - | - | 7,180,055 | 7,812,149 |
| Investments carried at cost: | | | | |
| Investment in subsidiaries (note 25) | - | - | 9 | 9 |
| | - | - | **7,180,064** | **7,812,158** |

(i) These loans are non-interest bearing and there is no fixed date of repayment and are eliminated on Group consolidation.
(ii) These impairments are eliminated on Group consolidation.

### 14. Other non-current assets

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| Prepaid lease on Picton land(i) | 838,290 | 838,290 | - | - |
| Reclassified as current asset | (41,914) | - | - | - |
| Accumulated amortization (note 5) | (75,446) | (33,532) | - | - |
| | **720,930** | **804,758** | - | - |

(i) In the prior year, the Group entered into an agreement to sale of its Picton land to Kingslane Pty Ltd for a total consideration of $3,000,000 (excluding GST) and agreed to lease back a portion of the land (approximately 25% of the total property) for a fixed fee of $838,290 (included stamp duty of $58,290) paid up front.

### 15. Trade and other payables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| **Current:** | | | | |
| Trade payables (i) | 2,103,325 | 989,324 | 618,960 | 621,031 |
| Lease liability (ii) | 10,800 | 5,915 | - | - |
| WA Government grant(iii) | 300,000 | 400,000 | 300,000 | 400,000 |
| Other payables | 398,707 | 569,983 | 138,827 | 331,752 |
| | **2,812,832** | **1,965,222** | **1,057,787** | **1,352,783** |
| **Non-current:** | | | | |
| Lease liability | - | 10,800 | - | - |

(i) Trade payables are non-interest bearing and are normally settled on 0-60 day terms.
(ii) The Group leased a motor vehicle under finance lease. The average lease term is 5 years (2010:5 years). The Group has options to purchase the motor vehicle for a nominal amount at the end of the lease terms. The Group’s obligations under finance leases are secured by the lessors’ title to the leased assets.
Interest rate underlying all obligations under finance lease is fixed at 23.50%.
(iii) The WA Government advance is convertible to a grant when certain performance conditions are met. The Government advance was awarded in 2005 with a convertible period of 5 years. The advance is non interest-bearing and any unconverted and outstanding amounts as at June 2011 are repayable at that time. $100,000 was converted to a grant and recognised in 2011 in accordance with the agreement. (2010: nil)

## 16. Provisions

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| Employee leave | | | | |
| Current | 182,010 | 121,361 | 66,299 | 42,729 |
| Non –current | - | - | - | - |
| | **182,010** | **121,361** | **66,299** | **42,729** |

## 17. Borrowings

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| Loans from: | | | | |
| Related parties (i) | - | 2,700,000 | - | 2,700,000 |
| | **-** | **2,700,000** | **-** | **2,700,000** |
| Disclosed in the financial statements as: | | | | |
| Current borrowings | - | 2,700,000 | - | 2,700,000 |
| Non-current borrowings | - | - | - | - |
| | **-** | **2,700,000** | **-** | **2,700,000** |

(i) Wasabi loan was fully paid during the year (Note 26).

At reporting date, the Group had the following financing facilities in place, all with HSBC Bank Australia Limited:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| ***Total facilities:*** | | | | |
| Bank overdraft | - | - | - | - |
| Guarantee facility | 559,900 | 734,900 | 559,900 | 659,900 |
| | **559,900** | **734,900** | **559,900** | **659,900** |
| ***Facilities used at reporting date:*** | | | | |
| Bank overdraft | - | - | - | - |
| Guarantee facility | - | - | - | - |
| | **-** | **-** | **-** | **-** |
| ***Facilities unused at reporting date:*** | | | | |
| Bank overdraft | - | - | - | - |
| Guarantee facility | 559,900 | 734,900 | 559,900 | 659,900 |
| Other | - | - | - | - |
| | **559,900** | **734,900** | **559,900** | **659,900** |
| ***Total facilities:*** | 559,900 | 734,900 | 559,900 | 659,900 |
| Facilities used at reporting date | - | - | - | - |
| Facilities unused at reporting date | **559,900** | **734,900** | **559,900** | **659,900** |

HSBC Bank Australia Pty Ltd provided the Group with overdraft facilities and these in aggregate over all companies in the Group. These were repaid and closed by the Group in July 2009. Bank guarantees are provided on an entity basis for specific purposes.

## 18. Issued capital and contributed equity

| | Consolidated & Company 2011 $ | Consolidated & Company 2010 $ |
|---|---|---|
| Fully paid ordinary shares: | | |
| 30 June 2011: 1,732,641,023 (30 June 2010: 631,523,384) | 114,576,984 | 104,561,260 |

Changes to the then Corporations Law abolished the authorized capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorized capital and issued shares do not have a par value.

*18.1 Ordinary shares*

| | Consolidated & Company 2011 | | Consolidated & Company 2010 | |
|---|---|---|---|---|
| | No. | $ | No. | $ |
| Balance at beginning of year | 631,523,384 | 104,561,260 | 338,017,311 | 102,639,583 |
| Loan converted to shares | - | - | 50,000,000 | 500,000 |
| Issue of shares from rights issue | 772,063,390 | 5,027,714 | 225,344,874 | 1,275,371 |
| Exercise of options | 329,054,249 | 5,638,193 | 18,161,199 | 260,438 |
| Share issue costs | - | (650,183) | - | (114,132) |
| Balance at end of financial year | **1,732,641,023** | **114,576,984** | **631,523,384** | **104,561,260** |

Ordinary shares carry one vote per share and carry the right to dividends.

*18.2 Options*

| | Consolidated & Company 2011 | | Consolidated & Company 2010 | |
|---|---|---|---|---|
| | No. | $ | No. | $ |
| Balance at beginning of the year | 309,318,675 | 1,695,066 | 7,340,000 | 401,597 |
| Issue of options | 592,063,390 | 4,492,920 | 327,094,874 | 1,762,709 |
| Exercise of options | (329,054,249) | (2,347,653) | (18,161,199) | (78,826) |
| Recognition of share based payment | - | 386,266 | - | - |
| Options expired/forfeited | - | - | (6,955,000) | (390,414) |
| Balance at end of financial year | **572,327,816** | **4,226,599** | **309,318,675** | **1,695,066** |

## 19. Reserves

| | Consolidated 2011 $ | Consolidated 2010 $ | Company 2011 $ | Company 2010 $ |
|---|---|---|---|---|
| Foreign currency translation reserve | (468,561) | (471,008) | - | - |
| Employee share options reserve | 611,428 | 225,162 | 611,428 | 225,162 |
| Other reserve (i) | 250,000 | - | - | - |
| General options reserve | 3,615,171 | 1,469,904 | 3,615,171 | 1,469,904 |
| | **4,008,038** | **1,224,058** | **4,226,599** | **1,695,066** |

(i) Advances from GBTI

## 19. Reserves *(continued)*

*19.1 Foreign currency translation reserve*

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| Balance at beginning of year | (471,008) | (476,308) |
| Exchange differences arising on translating the net assets of foreign operations | 2,447 | 5,300 |
| Balance at end of year | **(468,561)** | **(471,008)** |

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

*19.2 Employee share options reserve*

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 $ | 2010 $ | 2011 $ | 2010 $ |
| Balance at beginning of year | 225,162 | 401,597 | 225,162 | 401,597 |
| Share based payments | 386,266 | 213,979 | 386,266 | 213,979 |
| Options exercised | - | - | - | - |
| Options expired or forfeited | - | (390,414) | - | (390,414) |
| Balance at end of year | **611,428** | **225,162** | **611,428** | **225,162** |

The employee share options reserve arises on the grant of options to directors and employees under the share plan. Amounts are recognized in accordance with note 1(r). Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share based payment to employees is made in note 32 to the financial statements.

*19.3 General options reserve*

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 $ | 2010 $ | 2011 $ | 2010 $ |
| Balance at beginning of year | 1,469,904 | - | 1,469,904 | - |
| Options issued | 4,492,920 | 1,548,730 | 4,492,920 | 1,548,730 |
| Options exercised | (2,347,653) | (78,826) | (2,347,653) | (78,826) |
| Balance at end of year | **3,615,171** | **1,469,904** | **3,615,171** | **1,469,904** |

The general options reserve arised on:

(i) The grant of options to shareholders who took up the Rights Issue shares in November 2010 under which one option was granted for nil consideration for every share subscribed. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Options are valued at 0.8 cents per option using the Black-Scholes method.

*19.4 Other reserve*

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 $ | 2010 $ | 2011 $ | 2010 $ |
| Balance at beginning of year | - | - | - | - |
| Advances from GBTI | 250,000 | - | - | - |
| Balance at end of year | **250,000** | - | **-** | - |

**19. Reserves *(continued)***

The other reserve in the current year arised on advances made by Global Biofuels Trading (GBTI) to Besok Fuels Pty Ltd under which GBTI has provided $2m funding which is held in trust. The funds will be used towards the establishment of pre processing equipment in the Picton facility. The earlier of the commissioning of this equipment or complete draw down of the $2m will trigger Australian Renewable Fuels Ltd to grant shares to GBTI as consideration for this funding. The initial draw down of $250,000 has been treated as equity in the current year.

**20. Retained earnings**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| Balance at beginning of year | (100,865,126) | (97,581,924) | (101,385,327) | (100,920,404) |
| Net (loss) attributable to members of the parent entity | (8,063,938) | (3,283,202) | (8,150,383) | (464,923) |
| Balance at end of year | **(108,929,064)** | **(100,865,126)** | **(109,535,710)** | **(101,385,327)** |

**21. Non-controlling interest**

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| Balance at beginning of year | (73,720) | - |
| Share of loss for the year | (64,398) | (73,720) |
| Balance at end of year | **(138,118)** | **(73,720)** |

**22. Commitments**

The Group has entered into commercial lease in relation to the former Perth head office. This lease has remaining lives of 18 months.

The following obligations relating to the operating leases are not provided for in the financial report and are payable.

| | Consolidation | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| Not longer than 1 year | 25,957 | 73,882 | 21,830 | 21,830 |
| Longer than 1 year and not longer than 5 years | 11,947 | 37,904 | 10,915 | 32,744 |
| Longer than 5 years | - | - | - | - |
| | **37,904** | **111,786** | **32,745** | **54,574** |

**23. Contingent assets and liabilities**

**(i) 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 repay 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.

**(ii) Contingent asset – Picton land sale contingent 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.

**(iii) Legal claims**

Neither the Group nor the Parent entity had any outstanding legal claims at reporting date.

### 24. Subsidiaries

The parent entity of the Group is Australian Renewable Fuels Limited, which has the subsidiaries detailed in the following table.

| | | Ownership interest | | Investment | |
|---|---|---|---|---|---|
| **Name of entity** | **Country of incorporation** | **2011 %** | **2010 %** | **2011 $** | **2010 $** |
| **Parent entity** | | | | | |
| Australian Renewable Fuels Limited | Australia | | | | |
| **Subsidiaries** | | | | | |
| Australian Renewable Fuels Picton Pty Ltd | Australia | 100 | 100 | 2 | 2 |
| Australian Renewable Fuels Adelaide Pty Ltd | Australia | 100 | 100 | 1 | 1 |
| ARF Global Pty Ltd | Australia | 100 | 100 | 1 | 1 |
| Shelly Nominees Pty Ltd | Australia | 100 | 100 | 2 | 2 |
| Besok Fuels Pty Ltd (Industrial Oilseeds Australia Pty Ltd) | Australia | 100 | 100 | - | - |
| ARF Plantations Pty Ltd | Australia | 100 | 100 | - | - |
| ASG Analytik Pty Ltd | Australia | 50 | 50 | 2 | 2 |
| American Renewable Fuels Inc | USA | 63 | 63 | 1 | 1 |

All 100% owned Australian entities are part of the tax consolidated group.

### 25. Cash flows from operations reconciliation

**Reconciliation of (loss) for the year to net cash flows from operating activities**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2011 $** | **2010 $** | **2011 $** | **2010 $** |
| **Loss for the year:** | **(8,128,336)** | **(3,356,922)** | **(8,150,383)** | **(464,923)** |
| *Non cash items:* | | | | |
| (Gain)/loss on disposal of fixed assets and land | - | (2,204,546) | - | (2,204,546) |
| Interest expense on equity settled loan | - | 172,685 | - | 172,685 |
| (Gain)/Loss on derivative liability | - | 245,724 | - | 245,724 |
| Interest income | (69,884) | (25,923) | (66,586) | (25,464) |
| Depreciation and amortization of property, plant and equipment | 1,015,948 | 1,064,572 | 37,698 | 43,110 |
| Reclassified borrowings to grant | (100,000) | - | (100,000) | - |
| Share-based payments expense | 386,266 | 213,979 | 386,266 | 213,979 |
| Employee share scheme options forfeited | - | (390,414) | - | (390,414) |
| Impairment/(reversal of impairment) of doubtful debts | - | (57,845) | - | - |
| Impairment of non-current assets | - | - | 4,334,255 | (182,054) |
| Inventory write off | (526,697) | - | - | - |
| Net foreign exchange loss | - | - | 142,859 | 161,027 |
| *Changes in net assets and liabilities:* | | | | |
| (Increase) / decrease in assets: | | | | |
| Trade and other receivables | (246,173) | (111,130) | 27,957 | 49,141 |
| Inventories | (251,933) | (534,592) | - | - |
| Other assets | 271,371 | (513,820) | 298,137 | (427,822) |
| *Increase / (decrease) in liabilities*: | | | | |
| Trade and other payables | 743,440 | (64,227) | (191,947) | 121,515 |
| Provisions | 61,301 | (20,745) | 21,782 | 16,994 |
| **Net cash from operating activities** | **(6,844,697)** | **(5,583,204)** | **(3,259,962)** | **(2,671,048)** |

**26. Non-cash transactions**

The Company has previously established 2 loan facilities with Wasabi Energy to provide working capital support for a total of $2.7 million. The loan is at a fixed interest rate of 10% per annum. The loans were fully drawn by June 2010.In July 2010 $189k was repaid in a cashless transaction in which Wasabi exercised 18.9 million options at 1 cent with the notional proceeds being debited against the outstanding loan. In October 2010, $1,159k was repaid in a cashless transaction against the outstanding loan. Wasabi Energy has taken up a Non renounceable entitlement issue of 2 New Shares for every 3 Shares at an issue price of $0.01 per New Share together with one free attaching Option for every New Share issued. The remaining loan balance of $1,350,751 was fully paid in cash during November.

**27. Financial instruments**

*27.1 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 maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2010. 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, general administrative outgoings.

Gearing levels are reviewed by the Board on a regular and ongoing basis after consideration of the cost of capital and the risks associated with each class of capital.

The gearing ratio at year end was as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| Debt (i) | - | 2,700,000 | - | 2,700,000 |
| Cash and cash equivalents | (3,528,363) | (778,789) | (2,791,548) | (418,957) |
| | (3,528,363) | 1,921,211 | (2,791,548) | 2,281,043 |
| Equity (ii) | 9,517,840 | 4,846,472 | 9,267,873 | 4,870,999 |
| Net debt to equity ratio | N/A | 40% | N/A | 47% |

(i) Debt is defined as current and non-current borrowings as defined in note 17
(ii) Equity includes all capital and reserves

*27.2 Significant accounting policies relating to financial instruments*

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

*27.3 Categories of financial instruments*

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| **Financial assets** | | | | |
| Cash and cash equivalents | 3,528,363 | 778,789 | 2,791,548 | 418,957 |
| Trade and other receivables | 871,945 | 490,978 | 116,383 | 49,827 |
| Other financial assets | - | - | 7,180,064 | 7,812,158 |
| | **4,400,308** | **1,269,767** | **10,087,995** | **8,280,942** |
| **Financial liabilities** | | | | |
| Trade and other payables | 2,802,032 | 1,965,222 | 1,057,787 | 1,352,783 |
| Other financial liabilities | 10,800 | 17,199 | - | - |
| Borrowings | - | 2,700,000 | - | 2,700,000 |
| | **2,812,832** | **4,682,421** | **1,057,787** | **4,052,783** |

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 on the principle amounts for such loans.

**27. Financial instruments *(continued)***

*27.4 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.

*27.5 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 favorable 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.

*27.6 Foreign currency risk management*

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. At the end of the year the Group was exposed to US Dollar (USD) currency fluctuations. Exchange rate exposures are managed within approved internal policy parameters.

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

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| US dollars (Australian dollars equivalent) | 620,337 | 754,614 | - | - |

*Foreign currency sensitivity analysis*

The above liabilities consist of an intercompany loan of $620,337 which eliminates on consolidation. The sensitivity analysis has only been performed on the Group foreign exchange balances. Based on the financial instruments held at 30 June 2011 the Group's post tax loss and equity would have been $2 higher/lower (2010: $2,452 higher/lower) with a 10% decrease/increase 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 the possible change in foreign exchange rates in the short term. 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. It includes external loans and amounts payable to external parties but excludes loans between entities within the Group.

The parent entity's risk exposure to foreign exchange is therefore considered to be immaterial. Notwithstanding this, the Group seeks to mitigate the effect of its foreign currency exposure by limiting the outflow of Group funds for activities outside Australia. It should be noted that activities in the US are currently at minimal levels, as was the case the case throughout the reporting period.

*27.7 Interest rate risk management*

The company and the Group may, from time to time, be 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. At June 2011, all borrowings were on a fixed rate basis. 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 possible change in interest rates in the short term.

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/decrease would be immaterial (30 June 2010: immaterial) due to all borrowings being on fixed rate basis. Other equity reserves increase/decrease would be immaterial (30 June 2010: immaterial).

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

**27. Financial instruments *(continued)***

*27.8 Credit risk management*

Credit risk refers to the risk that 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'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 on an ongoing basis.

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.

*27.9 Liquidity risk management*

Ultimate responsibility for liquidity risk management rests with the Board, which has 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 17 is a listing of additional undrawn facilities that the company/Group has at its disposal to further reduce liquidity risk.

The following tables detail the company's and Group's contractual maturity for its non-derivative financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

**27. Financial instruments *(continued)***

*27.9 Liquidity risk management (continued)*

**Group**

| | Weighted Average Effective Interest Rate | Less than 1 month $ | 1 – 3 months $ | 3 months to 1 year $ | 1 -5 years $ | 5+ years $ |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| ***Financial assets*** | | | | | | |
| Trade and other receivables | | 871,945 | - | - | - | - |
| Cash and cash equivalent | 3.8% | 3,528,363 | - | - | - | - |
| | | **4,400,308** | **-** | **-** | **-** | **-** |
| ***Financial liabilities*** | | | | | | |
| Trade and other payables | | 2,502,032 | - | 300,000 | - | - |
| Other | 0% | 10,800 | - | - | - | - |
| Borrowings | 0% | - | - | - | - | - |
| | | **2,512,832** | **-** | **300,000** | **-** | **-** |
| **2010** | | | | | | |
| ***Financial assets*** | | | | | | |
| Trade and other receivables | 0.8% | 490,978 | - | - | - | - |
| Cash and cash equivalents | | 778,789 | - | - | - | - |
| | | **1,269,767** | **-** | **-** | **-** | **-** |
| ***Financial liabilities*** | | | | | | |
| Trade and other payables | | 1,565,222 | - | 400,000 | - | - |
| Other | 12.4% | - | - | 6,399 | 10,800 | - |
| Borrowings | 8.7% | - | - | 2,763,726 | - | - |
| | | **1,565,222** | **-** | **3,170,125** | **10,800** | **-** |

### 27. Financial instruments *(continued)*

*27.9 Liquidity risk management (continued)*

**Company**

| | Weighted Average Effective Interest Rate | Less than 1 month $ | 1 – 3 months $ | 3 months to 1 year $ | 1 -5 years $ | 5+ years $ |
|---|---|---|---|---|---|---|
| ***2011*** | | | | | | |
| ***Financial assets*** | | | | | | |
| Trade and other receivables | | 116,383 | - | - | - | - |
| Cash and cash equivalent | 4.4% | 2,791,548 | - | - | - | - |
| | | **2,907,931** | - | - | - | - |
| ***Financial liabilities*** | | | | | | |
| Trade and other payables | | 757,787 | - | 300,000 | - | - |
| Other | 0% | - | - | - | - | - |
| Borrowings | 0% | - | - | - | - | - |
| | | **757,787** | - | **300,000** | - | |
| ***2010*** | | | | | | |
| ***Financial assets*** | | | | | | |
| Trade and other receivables | | 49,827 | - | - | - | - |
| Cash and cash equivalents | 0.8% | 418,957 | - | - | - | - |
| | | **468,784** | - | - | - | - |
| ***Financial liabilities*** | | | | | | |
| Trade and other payables | | 952,783 | - | 400,000 | - | - |
| Borrowings | 8.7% | - | - | 2,763,726 | - | - |
| | | **952,783** | - | **3,163,726** | - | - |

### 28. Key management personnel compensation

**Details of Key management personnel**

Key management is defined as directors and senior management as referred to in the remuneration report.

*28.1 Key management personnel compensation*

The aggregate compensation made to directors and other members of key management personnel of the company and the Group is set out below:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2011 $ | 2010 $ | 2011 $ | 2010 $ |
| Short-term employee benefits | 834,644 | 678,694 | 834,644 | 678,694 |
| Post-employment benefits - superannuation | 52,051 | 47,764 | 52,051 | 47,764 |
| Termination benefits | 42,250 | 5,384 | 42,250 | 5,384 |
| Share-based payments | 377,609 | 206,721 | 377,609 | 206,721 |
| | **1,306,554** | **938,563** | **1,306,554** | **938,563** |

**28. Key management personnel compensation *(continued)***

*28.2 Key management personnel equity holdings*

*Fully paid ordinary shares of Australian Renewable Fuels Limited*

| **2011** | **Balance at 1 July 2010** | **Received through rights issue** | **Acquired through open trading (i)** | **Received through exercised of options** | **Balance at 30 June 2011** | **Balance held nominally** |
|---|---|---|---|---|---|---|
| | *Number* | *Number* | *Number* | *Number* | *Number* | *Number* |
| **Directors** | | | | | | |
| M. Costello | - | - | - | - | - | - |
| P. Garling | - | - | - | - | - | - |
| R. Scott | - | 4,134,639 | - | - | 4,134,639 | - |
| T. Engelsman | - | - | - | - | - | - |
| J. Playoust | 120,127,486 | 42,673,284 | - | 40,745,039 | 203,545,809 | |
| C. Gullotta | 3,400,000 | 2,266,666 | - | - | 5,666,666 | - |
| **Senior Management** | | | | | | |
| S.Scheffer | - | - | - | - | - | - |
| E. de Graaff | 680,000 | 453,333 | 238,095 | - | 1,371,428 | - |

| **2010** | **Balance at 1 July 2009** | **Received through rights issue** | **Acquired through open trading (i)** | **Received through conversion of loan** | **Balance at 30 June 2010** | **Balance held nominally** |
|---|---|---|---|---|---|---|
| | *Number* | *Number* | *Number* | *Number* | *Number* | *Number* |
| **Directors** | | | | | | |
| R. Scott | - | - | - | - | - | - |
| T. Engelsman | - | - | - | - | - | - |
| J. Playoust | 52,382,447 | 42,745,039 | - | 25,000,000 | 120,127,486 | - |
| C. Gullotta | - | - | 3,400,000 | - | 3,400,000 | - |
| G. Denison | 592,109 | - | - | - | 592,109 | - |
| **Senior Management** | | | | | | |
| T. Oosterhof | 30,000 | - | - | - | 30,000 | - |
| L.Sole | 25,715 | - | - | - | 25,715 | - |
| E. de Graaff | - | - | 680,000 | - | 680,000 | - |

(i) acquired in open trading.

No other key personnel held or traded ordinary shares during the year.

**28. Key management personnel compensation *(continued)***

*28.2 Key management personnel equity holdings (continued)*

*Options in Australian Renewable Fuels Limited*

| **2011** | **Balance at 1 July 2010** | **Granted as compensation** | **Granted through rights issue or loan conversion** | **Exercised or Expired** | **Bal at 30 June 2011** | **Bal vested at 30 June 2011** | **Vested and exercise-able** | **Rights vested during year** |
|---|---|---|---|---|---|---|---|---|
| | *Number* | *Number* | *Number* | *Number* | *Number* | *Number* | *Number* | *Number* |
| **Directors** | | | | | | | | |
| M. Costello | - | - | - | - | - | - | - | - |
| P. Garling | - | - | - | - | - | - | - | - |
| R. Scott | 5,000,000 | - | 4,134,639 | - | 9,134,639 | 9,134,639 | 9,134,639 | 2,500,000 |
| T. Engelsman | 30,000,000 | - | - | - | 30,000,000 | 15,000,000 | 15,000,000 | 7,500,000 |
| J. Playoust | 72,745,039 | - | 99,418,323 | 40,745,039 | 131,418,323 | 131,418,323 | 131,418,323 | 2,500,000 |
| C. Gullotta | 8,400,000 | - | 2,266,666 | - | 10,666,666 | 10,666,666 | 10,666,666 | 2,500,000 |
| **Senior Management** | | | | | | | | |
| S.Scheffer | - | 7,500,000 | - | - | 7,500,000 | 750,000 | 750,000 | 750,000 |
| W. Day | 5,000,000 | - | - | 1,250,000 | 3,750,000 | 3,750,000 | 3,750,000 | 2,500,000 |
| E. de Graaff | - | - | 453,333 | - | 453,333 | 453,333 | 453,333 | - |

| **2010** | **Balance at 1 July 2009** | **Granted as compensation** | **Granted through rights issue or loan conversion** | **Exercised or Expired** | **Bal at 30 June 2010** | **Bal vested at 30 June 2010** | **Vested and exercise-able** | **Rights vested during year** |
|---|---|---|---|---|---|---|---|---|
| | *Number* | *Number* | *Number* | *Number* | *Number* | *Number* | *Number* | **Number** |
| **Directors** | | | | | | | | |
| R. Scott | - | 5,000,000 | - | - | 5,000,000 | 2,500,000 | 2,500,000 | 2,500,000 |
| T. Engelsman | - | 30,000,000 | - | - | 30,000,000 | 7,500,000 | 7,500,000 | 7,500,000 |
| J. Playoust | - | 5,000,000 | 67,745,039 | - | 72,745,039 | 70,245,039 | 70,245,039 | 2,500,000 |
| C. Gullotta | - | 5,000,000 | 3,400,000 | - | 8,400,000 | 5,900,000 | 5,900,000 | 2,500,000 |
| **Senior Management** | | | | | | | | |
| W. Day | - | 5,000,000 | - | | 5,000,000 | 1,250,000 | 1,250,000 | 1,250,000 |
| M. Ger | | 4,025,000 | - | - | 4,025,000 | - | - | - |
| L. Sole | 2,600,000 | - | - | 2,600,000 | - | - | - | - |
| T. Oosterhof | 170,000 | - | - | 170,000 | - | - | - | - |

During the financial year 40,745,039 options (2010: Nil) were exercised by key management personnel and 1,250,000 options were expired due to termination of senior management. Further details of the employee share plan and of options granted during the 2011 and 2010 financial years are contained in note 32 to the financial statements.

## 29. Related party transactions

### (a) Equity interests in related parties

*i. Equity interests in subsidiaries*

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 24 to the financial statements.

### (b) Transactions with key management personnel

*i. Key management personnel compensation*

Details of key management personnel compensation are disclosed in note 28 to the financial statements.

*ii. Loans to key management personnel*

There were no loans to key management personnel during the financial year.

*iii. Other transactions with key management personnel of the Group*

There were no other transactions with key management personnel of the Group during the financial year or in prior year.

### (c) Transactions between Australian Renewable Fuels Limited and its related parties

*i. Related parties*

The following entities with which the Group transacted throughout the year are considered to be related parties:

A. Wasabi Energy Limited – a substantial shareholder of Australian Renewable Fuels Limited which had a common company secretary (Alwyn Davey – resigned on 15 November 2010).

B. Australian Enterprise Holdings Pty Limited – a substantial shareholder of Australian Renewable Fuels Limited and the managing director of which (Julien Playoust) is also a director of Australian Renewable Fuels Limited.

C. AGD Mining Pty Limited - which has a director (Alwyn Davey) who is the company secretary (resigned 15 November 2010) of Australian Renewable Fuels Limited.

*ii. Trading transactions*

During the financial year, Group entities entered into the following transactions with related parties that are not members of the Group. All transactions were conducted on a commercial basis.

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| Wasabi Energy Limited: | $ | $ |
| - capital raising underwriting fees | - | 41,078 |
| - corporate and administrative services | 208,639 | 57,715 |
| - interest expense on loans provided | 95,602 | 76,301 |
| Australian Enterprise Holdings Pty Limited: | | |
| - interest expense on loans provided | - | 12,575 |
| - directors remuneration to Julien Playoust | 50,593 | 57,011 |
| AGD Mining Pty Limited: | | |
| - corporate and administrative services | 10,491 | 117,360 |
| | 365,325 | 362,040 |

## 29. Related party transactions *(continued)*

*iii. Loans from related parties*

The following loan balances were outstanding at the end of the reporting period:

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| Wasabi Energy Limited | - | 2,700,000 |
| Australian Enterprise Holdings Pty Limited | - | - |
| | - | 2,700,000 |

(i) The loan was fully paid during the year as disclosed in note 26.

### (d) Transactions between Australian Renewable Fuels Limited and its subsidiaries

The parent entity of the Group is Australian Renewable Fuels Limited. The parent entity has several subsidiaries which are detailed in note 24.

The parent entity, at time to time during the year, has paid expenses on behalf its subsidiaries. These transactions and the end of period amounts owing are summarized in the following table.

| Subsidiaries: | Expenditure Related Parties 2011 $ | Expenditure Related Parties 2010 $ | Amounts Owed by Related parties 2011 $ | Amounts Owed by Related parties 2010 $ |
|---|---|---|---|---|
| Australian Renewable Fuels Picton Pty Ltd | 1,173,654 | 3,058,722 | 34,615,489 | 33,441,835 |
| Australian Renewable Fuels Adelaide Pty Ltd | 2,540,909 | 1,577,090 | 32,532,707 | 29,991,797 |
| ASG Analytik Pty Ltd | 34,371 | 55,055 | 959,533 | 925,162 |
| ARF Global Pty Ltd | - | - | 6,513 | 6,513 |
| Shelly Nominees Pty Ltd | - | - | 6,205 | 6,205 |
| Besok Fuels Pty Ltd | 62,986 | - | 62,986 | - |
| American Renewable Fuels Inc | 33,099 | 48,987 | 620,337 | 730,097 |
| | **3,845,019** | **4,739,854** | **68,803,770** | **65,101,609** |

## 30. Remuneration of auditors

| | Consolidated 2011 $ | Consolidated 2010 $ | Company 2011 $ | Company 2010 $ |
|---|---|---|---|---|
| **Auditor of the parent entity** | | | | |
| Audit and review of the financial report | 85,050 | 73,000 | 85,050 | 73,000 |
| Other non-audit services | | | | |
| - Due diligence on BPL acquisition | 56,000 | - | 56,000 | - |
| | **141,050** | **73,000** | **141,050** | **73,000** |

## 31. Earnings per share

| | Consolidated | |
|---|---|---|
| | 2011 Cents per share | 2010 Cents per share |
| Basic earnings (loss) per share (i) | (0.71) | (0.53) |
| Diluted earnings (loss) per share (ii) | (0.71) | (0.53) |

*(i) Basic earnings per share*

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | 2011 $ | 2010 $ |
|---|---|---|
| Net Loss from continued and continuing operations | (8,063,938) | (3,283,202) |

| | 2011 Number | 2010 Number |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 1,143,771,562 | 614,732,799 |

*(ii) Diluted earnings/(loss) per share*

The options held by rights holders have not been included in the weighted average number of ordinary shares for the purposes of calculating diluted EPS as they do not meet the requirements for inclusion in AASB 133 "Earnings per Share". The rights are non-dilutive as they do not increase loss per share for continuing operations.

## 32. Share-based payments

*32.1 Employee share option plan*

Share options are granted to executives and staff as part of their remuneration package under the Employee Share Option Plan. There are no cash settlement alternatives. The Employee Share Option Plan is designed to provide long term incentives for senior managers and above (including 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 statement of comprehensive income in relation to share-based payments is disclosed in note 4.

During the financial year the company issued 7,500,000 options to employee. These options were issued from the series grant approved by the shareholders in November 2009.

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

| Option series grant date | Number of options | Expiry date | Exercise price $ | Fair value at grant date $ |
|---|---|---|---|---|
| July 2007 | 255,000 | June 2012 | 0.60 | 0.03 |
| March 2008 | 5,360,000 | March 2013 | 0.10 | 0.03 |
| September 2008 | 1,500,000 | September 2013 | 0.10 | 0.03 |
| August 2009 | 1,750,000 | September 2014 | 0.02 | 0.01 |
| November 2009 | 50,000,000 | September 2014 | 0.02 | 0.01 |

### 32. Share-based payments *(continued)*

*32.2 Fair value of share options granted in the year*

The weighted average fair value of the options granted during the financial year is 0.58 cents (2010: 1.46 cents). They were priced using a Black-Scholes valuation model. The inputs into this model were:

| Inputs into the model | Option series grant date | | | | |
|---|---|---|---|---|---|
| | July 2007 | March 2008 | September 2008 | August 2009 | November 2009 |
| Grant date share price | 3.4 cents | 3.2 cents | 2.9 cents | 1.4 cents | 2.0 cents |
| Exercise price | 60.0 cents | 10.0 cents | 10.0 cents | 2.0 cents | 2.0 cents |
| Expected volatility | 180% | 180% | 217% | 220% | 208% |
| Risk-free interest rate | 6.0% | 6.4% | 5.7% | 4.9% | 4.6% |
| Option life | 60 months | 60 months | 60 months | 61 months | 58 months |

*32.3 Movements in employee share options during the year*

The following reconciles the outstanding options granted under the employee share option plan at the beginning and end of the financial year:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Number of rights | Weighted average exercise price cents | Number of rights | Weighted average exercise price Cents |
| Balance at beginning of the financial year | 52,135,000 | 2.1 | 7,340,000 | 20.0 |
| Granted during the financial year | 7,500,000 | 2.0 | 51,750,000 | 2.0 |
| Exercised during the financial year (i) | - | - | - | - |
| Forfeited during the financial year | (1,250,000) | 2.0 | (6,955,000) | 20.0 |
| Expired during the financial year | - | - | - | - |
| Balance at end of the financial year (ii) | 58,385,000 | 2.1 | 52,135,000 | 2.1 |
| *Exercisable at end of the financial year* | *34,885,000* | 2.0 | *16,635,000* | *2.3* |

(i) There were no options granted under the employee share option plan that were exercised during the financial year.

(ii) The share options outstanding at the end of the financial year had a weighted average exercise price of 2.1 cents (2010: 2.1 cents), and a weighted average remaining contractual life of 3.2 years (2010: 4.2 years).

### 33. Proposed business combination

In January 2011, the Group announced the proposed acquisition of Biodiesel Producers Limited (BPL).

The structure of the acquisition will be predominantly based on a non-cash assumption of BPL's existing convertible note debt of $13.65m (with a redemption value of $21million) by Australian Renewable Fuels Limited with the payment and structure of the notes linked to the future performance of BPL's plant over a 5 year period. This will give the Group access to the Eastern Seaboard and a truly National presence. In addition, the acquisition price will include the buyout of minority interest shareholders approximating $2.8m.

An extraordinary general meeting was held on the 28th June 2011 where shareholders of the Group approved the issue of secured convertible notes for the BPL deal.

The acquisition is subject to a number of conditions including completion of the note purchase agreement, the company obtaining a finance facility of $12million and and key BPL management and 50% of BPL employees accepting offers of employment by Australian Renewable Fuels Adelaide Pty Ltd, and other due diligence matters.The current completion date is 31 October 2011.

### 34. Subsequent event

There has not been any matter, other than has already been noted, 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.

# 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;

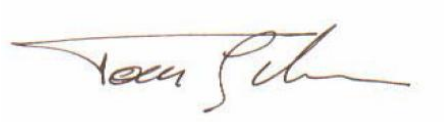
(b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards as stated in note 1 to the financial statements;

(c) in the directors' opinion, the attached financial statements and notes thereto are in compliance 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 Company and the consolidated entity; and

(d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the directors,



Tom Engelsman
Director
Melbourne, 28 September 2011

Deloitte.

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# Independent Auditor's Report to the members of Australian Renewable Fuels Limited

## Report on the Financial Report

We have audited the accompanying financial report of Australian Renewable Fuels Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 21 to 59.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those 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 of the financial report that gives a true and fair view, 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.

*Auditor's Independence Declaration*

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*, 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 report.

Deloitte.

*Opinion*

In our opinion:

(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 2011 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

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

Without qualifying our opinion, 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 of $8,063,938 with net cash outflows from operating activities of $6,844,697 for the year ended 30 June 2011. 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 company and consolidated entity to continue as going concerns and whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 10 to 15 of the directors' report for the year ended 30 June 2011. 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.

*Auditors Opinion*

In our opinion the Remuneration Report of Australian Renewable Fuels Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Sanders

Ian Sanders
Partner
Chartered Accountants
Melbourne, 28th September 2011

# Additional shareholder information

Additional information required by the ASX Listing Rules not disclosed elsewhere in the full year report is set out below.
The shareholder information set out below was applicable as at 30 June 2011.

### 1. Distribution of Shareholders

Distribution of ordinary shareholders and shareholdings is set out in the table below:

| Category of holding | Holders | Number of shares | % of Issued Capital |
|---|---|---|---|
| 1 – 1,000 | 165 | 97,809 | 0.01 |
| 1,001 – 5,000 | 582 | 1,733,534 | 0.10 |
| 5,001 – 10,000 | 354 | 2,791,537 | 0.17 |
| 10,000 – 100,000 | 1,292 | 55,073,727 | 3.27 |
| 100,001 and over | 767 | 1,626,377,014 | 96.45 |
| **Total** | **3,160** | **1,686,073,621** | **100.00** |

Voting rights as governed by the Constitution of the Company provide that each ordinary shareholder present in person or by proxy at a meeting shall have:

(a) on a show of hands, one vote only; and
(b) on a poll, one vote for every fully paid ordinary share held.

### 2. Largest shareholders

The names of the twenty largest holders by account holding of ordinary shares are listed below:

| Shareholder | Shares held | % of issued capital |
|---|---|---|
| WASABI ENERGY LTD | 289,947,925 | 17.2 |
| ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C> | 195,115,519 | 11.57 |
| UBS NOMINEES PTY LTD | 111,059,110 | 6.59 |
| MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 66,179,747 | 3.93 |
| NATIONAL NOMINEES LIMITED | 60,250,814 | 3.57 |
| HARLEY CLARKE ENTERPRISES PTY LTD | 50,000,000 | 2.97 |
| MINING & RURAL INVESTMENTS LTD | 37,716,666 | 2.24 |
| RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C> | 34,405,637 | 2.04 |
| SEASPIN PTY LTD <THE APHRODITE A/C> | 27,500,000 | 1.63 |
| THIRTY-FIFTH CELEBRATIONS PTY LTD <J C MCBAIN SUPER FUND A/C> | 25,278,042 | 1.5 |
| MR IAN JOHN JAMES | 22,717,952 | 1.35 |
| DIXSON TRUST PTY LTD | 22,408,768 | 1.33 |
| HOTLAKE PTY LTD <HALCYON SUPER FUND A/C> | 22,000,000 | 1.3 |
| MR NEVILLE CLARKE | 20,822,525 | 1.23 |
| SWEET WATER PTY LTD <FARMOCEAN SUPER FUND A/C> | 20,500,000 | 1.22 |
| UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD | 18,211,428 | 1.08 |
| BELL POTTER NOMINEES LTD <BB NOMINEES A/C> | 17,987,378 | 1.07 |
| EARLY FORCE PTY LTD | 17,500,000 | 1.04 |
| MR GREGORY MAXWELL WALLACE + MRS YVONNE EVELYN WALLACE | 16,350,000 | 0.97 |
| GILSUPER PTY LTD <GILMOUR SUPER FUND A/C> | 12,067,319 | 0.72 |
| **Total shareholding of the 20 largest shareholders** | **1,088,018,830** | **64.53** |

### 3. Option holders

The Company has no listed options.

## Additional shareholder information *(continued)*

### 4. Register of substantial shareholders

The names of substantial shareholders in the Company and the number of fully paid ordinary shares in which each has an interest, as disclosed in substantial shareholder notices to the Company on the respective dates shown, are as follows:

| Holder | Date | Number of shares | % of issued capital |
|---|---|---|---|
| Wasabi Energy Ltd | 30 June 2011 | 289,947,925 | 17.20 |
| ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/c> | 30 June 2011 | 195,115,519 | 11.57 |

### 5. Restricted Securities

The Company had no securities subject to escrow arrangement:

### 6. General

**Company Secretary:**
Andrew Metcalfe (appointed 11 August 2011)
Stephan Scheffer (appointed 15 November 2010 and resigned 11 August 2011)
Alwyn Davey (resigned 15 November 2010)

**Principal Registered Office:**
Level 31, 120 Collins Street
Melbourne VIC 3000

**Postal Address:**
Level 31, 120 Collins Street
Melbourne VIC 3000

**Share Registry:**
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

**ASX Code:**
ARW

**Solicitors:**
Gadens Lawyers
Level 25, Bourke Place
600 Bourke Street
Melbourne VIC 3000

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

**Auditors:**
Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne VIC 3000