Sterling Biofuels

30 August 2007

Manager
Company Announcements Office
Australian Stock Exchange Limited
Exchange Plaza
2 The Esplanade
PERTH WA 6000

Preliminary Final Report for the year ended 30 June 2007

Please find attached for release to the market:

1. Sterling Biofuels International Limited's (ASX Code: SBI) Preliminary Final Report for the year ended 30 June 2007.
2. A Media Release on the Preliminary Final Report for the year ended 30 June 2007

Yours sincerely

Anthony Walsh

Tony Walsh
Company Secretary
Sterling Biofuels International Limited

Sterling Biofuels International Ltd (ACN 119 880 492) **www.sterlingbiofuels.com**
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30 August 2007 **MEDIA RELEASE**

Preliminary Final Report for the year ended 30 June 2007

Sterling Biofuels International Limited has today released its Preliminary Final Report for the year ended 30 June 2007.

The directors consider that 2007 financial year has been a rewarding one for your Company with significant progress made toward its key goal of biodiesel production and sales.

During the year, the Company successfully completed one of its key objectives of the Initial Public Offering when it took delivery of its Malaysian based biodiesel production facility on time and notably, under budget. The total budgeted capital cost as stated in the Company's IPO prospectus was $21.3 million. This compares favourably with the actual expected capital cost for the plant of $19.4 million.

The attainment of this milestone was significant for the Company as it demonstrated the ability of the Company's management team to deliver a major project on time and under budget.

During the plant construction phase the cost of the Company's primary feedstock, palm olein, experienced a material price spike which resulted in the decision to delay commencement of production until a downward trend in feedstock prices emerges. This was done in order to preserve shareholder value.

Management has been very proactive in implementing strategies aimed at mitigating the feedstock price increases and positioning the Company closer to commencing production. During the year the Company was successful in varying its feedstock supply contract with its feedstock provider whereby the Company will now take delivery of a minimum of 2,000mt and a maximum of 4,000mt of palm olein a month (previously 6,000mt – 9,000mt).

The revised contract provides the Company with a number of key advantages resulting in price savings totalling between RM70–RM100/mt (A$24-A$34/mt). The Company continues to investigate further avenues to actively manage its feedstock prices and supply.

For further information, please contact:

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STERLING BIOFUELS INTERNATIONAL LIMITED

PRELIMINARY FINAL REPORT

Appendix 4E

Financial Year Ended 30 June 2007

ACN 119 880 492

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key Information

	30 June 2007 $'000	30 June 2006 $'000	Movement
Revenue	**1,051**	**-**	**n/a**
Loss after tax	**(2,968)**	**(1,436)**	**Down (107)%**
Loss attributable to members	**(2,968)**	**(1,436)**	**Down (107)%**
Dividends proposed or paid	**Nil**	**Nil**	**n/a**
Cash held at period end	**13,328**	**5**	**Up $13.3 million**
Capital expenditure for the period	**15,866**	**230**	**Up $15.6 million**

Statement of Financial Performance

The Company undertook an initial public offering exercise which raised $ 31.8 million (net of costs) from the issue of 35 million new shares which was successfully completed in September 2006. The Company made its debut on the ASX on 25 September 2006.

The principal activities of the Company during this period were:

- The construction of a 100,000 tonne per annum multi-feedstock biodiesel manufacturing plant at Lahad Datu in the Malaysian state of Sabah.

During the period under review, the Company made a net loss of $ 2.968 million which was lower than the forecast figure of $ 3.817 million in the prospectus. There were no operations as the biodiesel plant was still under construction. As such, there was no income other than interest income of $ 1.051 million which was higher than forecast. The net loss included forex losses of $ 0.399 million as the Australian Dollar appreciated against the Ringgit and the US Dollar. Against this was a write back of the cost of performance rights of $ 0.913 million as the performance condition for the 2008 financial year is unlikely to be achieved.

Statement of Financial Position

The expected capital cost for completing the plant amounts to $19.4 million. Of this sum, an amount of $ 15.866 million was incurred during the period under review.

As at 30 June 2007, the Company had cash reserves of $13.328 million. Trade and other payables of $ 2.365 million include amounts payable to contractors for the construction of the plant. Except for retention sums, all monies due to the contractors have been paid after the year end.

During the period under review, the Company's share capital was increased to $32.143 million due to the initial public offering exercise which raised $31.8 million (net of costs) and successfully completed in September 2006.

Statement of Cash Flows

Net cash outflows from operating activities increased to $2.021 million from $ 1.431 million is due to payments made to employees and suppliers.

Net cash outflows from investing activities increased to $ 15.866 million from $ 0.23 million is mainly attributable to the capital expenditure on the plant site, plant machinery and equipment.

Net cash inflows from financing activities increased to $ 31.348 million from $1.665 million mainly due to the proceeds from the initial public offering exercise conducted successfully in September 2006.

Dividends

No dividend was paid or is proposed for the period under review.

Significant Changes in the State of Affairs

The construction of the plant has now been completed and it is poised for commercial production.

Significant Events after Balance Sheet date

There were no significant events after balance sheet date.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Year Ended 30 June 2007 $'000	16 December 2005 to 30 June 2006 $'000
Continuing Operations		
REVENUE	1,051	-
Raw materials and consumables used	(306)	-
Employee benefits expense	(2,233)	(182)
Depreciation and amortisation expense	(39)	(5)
Distribution expense	(305)	-
Occupancy costs	(119)	(24)
Travel expense	(299)	(136)
Loss on foreign exchange	(399)	-
Other expenses	(319)	(1,089)
LOSS BEFORE INCOME TAX EXPENSE	(2,968)	(1,436)
Income tax expense	-	-
NET LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF STERLING BIOFUELS INTERNATIONAL LIMITED	(2,968)	(1,436)
Basic and diluted earnings per share (cents per share) – note 6	(5.15)	(25.61)

CONDENSED CONSOLIDATED BALANCE SHEET

	30 June 2007 $'000	30 June 2006 $'000
CURRENT ASSETS		
Cash and cash equivalents	13,328	5
Other	177	-
TOTAL CURRENT ASSETS	13,505	5
NON-CURRENT ASSETS		
Property, plant and equipment	15,836	225
Prepaid land lease payments	1,589	129
TOTAL NON-CURRENT ASSETS	17,425	354
TOTAL ASSETS	30,930	359
CURRENT LIABILITIES		
Trade and other payables	2,365	1,326
Interest bearing loans and borrowings	20	-
TOTAL CURRENT LIABILITIES	2,385	1,326
NON-CURRENT LIABILITIES		
Other payables	806	-
Interest bearing loans and borrowings	80	-
TOTAL NON-CURRENT LIABILITIES	886	-
TOTAL LIABILITIES	3,271	1,326
NET ASSETS/(LIABILITIES)	27,659	(967)
EQUITY		
Issued capital	32,143	473
Accumulated losses	(4,404)	(1,436)
Reserves	(80)	(4)
TOTAL EQUITY/(DEFICIT)	27,659	(967)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated	Issued Capital $'000	Accumulated Losses $'000	Employee Equity Benefits Reserve $'000	Foreign Currency Translation Reserve $'000	Total $'000
At 16 December 2005	-	-	-	-	-
Exchange differences arising on translation of foreign operations	-	-	-	(4)	(4)
Net income recognised directly in equity	-	-	-	(4)	(4)
Loss for the period	-	(1,436)	-	-	(1,436)
Total income/(expense)	-	(1,436)	-	(4)	(1,440)
Issue of shares	473	-	-	-	473
At 30 June 2006	473	(1,436)	-	(4)	(967)
Exchange differences arising on translation of foreign operations	-	-	-	(827)	(827)
Net income recognised directly in equity	-	-	-	(827)	(827)
Loss for the period	-	(2,968)	-	-	(2,968)
Total income/(expense)		(2,968)	-	(827)	(3,795)
Cost of share-based payments	-	-	751	-	751
Issue of shares	35,000	-	-	-	35,000
Share issue costs	(3,330)	-	-	-	(3,330)
At 30 June 2007	**32,143**	**(4,404)**	**751**	**(831)**	**27,659**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Note	Year Ended 30 June 2007 $'000	16 December 2005 to 30 June 2006 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(3,072)	(1,431)
Interest received		1,051	-
NET CASH USED IN OPERATING ACTIVITIES	3(b)	(2,021)	(1,431)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment		(15,866)	(230)
NET CASH USED IN INVESTING ACTIVITIES		(15,866)	(230)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		35,000	473
Transaction costs of issue of shares		(3,201)	(129)
(Repayment of)/proceeds from borrowings		(451)	1,321
NET CASH FROM FINANCING ACTIVITIES		31,348	1,665
Net increase in cash and cash equivalents		13,461	4
Effects of exchange rate changes on the balance of cash held in foreign currencies		(138)	-
Cash and cash equivalents at the beginning of the period		5	1
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3(a)	13,328	5

1. BASIS OF PREPARATION

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A, the disclosure requirements of ASX Appendix 4E and the measurement requirements of Australian equivalents to International Financial Reporting Standards and Interpretations. The reporting period is the financial year ended 30 June 2007 with the comparative period from 16 December 2005 to 30 June 2006.

Significant accounting policies adopted by the Group in the preparation of this preliminary final report are detailed in Appendix 1.

2. DIVIDENDS

No dividends have been paid or are proposed for the period and there is no dividend reinvestment plan in operation.

3. NOTES TO THE CASH FLOW STATEMENT

	30 June 2007 $'000	30 June 2006 $'000
(a) Reconciliation of cash		
Cash balances comprise:		
Cash at bank	524	5
Deposits at call	12,804	-
	13,328	5

	Year Ended 30 June 2007 $'000	16 December 2005 to 30 June 2006 $'000
(b) Reconciliation of loss after income tax to the net cash used in operating activities		
Loss after tax	(2,968)	(1,436)
Non cash items		
Depreciation and amortisation	39	5
Share-based payment	751	-
Changes in assets and liabilities:		
Other current assets	(185)	-
Trade and other payables	342	-
Net cash used in operating activities	(2,021)	(1,431)

4. NET TANGIBLE ASSETS PER SHARE

	30 June 2007 $'000	30 June 2006 $'000
Net assets/(liabilities)	27,659	(967)
Less: intangible assets	(1,589)	(128)
Net tangible assets/(liabilities)	26,070	(1,095)

4. NET TANGIBLE ASSETS PER SHARE (continued)

	Number of shares	Number of shares
Number of shares outstanding at end of financial year	65,000,000	30,000,000
Net tangible assets/(liabilities) per share	$0.40	$(0.04)

5. SEGMENT INFORMATION

Geographical Segments

The Group's operations are based primarily in Lahad Datu, Sabah, Malaysia.

Industry Segments

The Group has one primary business segment being the construction and subsequent operations of a biodiesel plant.

6. EARNINGS PER SHARE

	30 June 2007 cents per share	30 June 2006 cents per share
Basic earnings per share	**5.15**	**25.61**

The earnings and weighted average number of ordinary shares used in the calculation of earnings per share are as follows:	**$'000**	**$'000**
Earnings	**(2,968)**	**(1,436)**
	Number	**Number**
Weighted average number of ordinary shares	**57,636,612**	**5,606,064**

7. AUDIT INFORMATION

This preliminary final report is based on financial statements that are in the process of being audited.

8. BUSINESS COMBINATION

The Company acquired 100% of the share capital of SPC Biodiesel Sdn Bhd on 31 May 2006. SPC Biodiesel was incorporated in Malaysia on 16 December 2005 as a private limited company. The acquisition has been accounted for as a "reverse acquisition" in accordance with AASB 3 "Business Combinations". SPC Biodiesel Sdn Bhd owns the Group's biodiesel plant and manages the Group's biodiesel operations. As at balance sheet date, SPC Biodiesel Sdn Bhd has yet to commence operations as the construction of the biodiesel plant was in progress and completed only subsequent to the financial year.

Accounting policies adopted in respect of this acquisition are detailed in Appendix 1(a)

9. ASSOCIATES AND JOINT VENTURE ENTITIES

The Group did not have a holding in any associates or joint venture entities during the period.

CRS PARAGASH

Managing Director, 30 August 2007

APPENDIX 1

Significant accounting policies

(a) Principles of consolidation

The financial statements comprise the financial statements of Sterling Biofuels International Limited ("Sterling") and its subsidiary as at 30 June 2007.

Business Combination

On 31 May 2006, Sterling effectively acquired all the issued capital of SPC Biodiesel. In accordance with the requirements of AASB 3 *Business Combinations*, SPC Biodiesel was identified as the acquirer in relation to the combination. Accordingly, the combination has been accounted for as a reverse acquisition.

This has resulted in the consolidated financial statements relating to the historical assets, liabilities and equity of SPC Biodiesel and the cost of the combination being recognised at the fair value of the equity instruments on issue in Sterling at the date of acquisition.

As SPC Biodiesel is the acquirer, the comparative information for the consolidated financial statements has been prepared for the period from date of incorporation of SPC Biodiesel (16 December 2005) to 30 June 2006. Comparative information for the financial statements of the parent entity have not been prepared as its first financial period covers the period from the date of incorporation of Sterling Biofuels International Limited (25 May 2006) to 30 June 2007.

Controlled entities

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

The financial statements of controlled entities are included in the consolidated financial statements form the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-company balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

(b) Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

Significant accounting policies (continued)

(c) Foreign currency translation

Both the functional and presentation currency of Sterling Biofuels is Australian dollars (A$). The functional currency of SPC Biodiesel (the parent for consolidation purposes) is Malaysian Ringgits (RM) and its presentation currency for group reporting purposes is Australian dollars (A$).

Transactions

Foreign currency transactions are translated to the relevant functional currency at the rate of exchange ruling at the date of transaction. At balance date all foreign currency monetary items are translated using the exchange ruling on the date. Non-monetary items which are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items which are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Resulting exchange differences are brought to account as exchange gains or losses in the income statement in the financial year in which the exchange rates change.

Consolidation

On consolidation, the assets and liabilities recognised on a functional currency other than Australian dollars are translated into Australian dollars at the exchange rates prevailing at the reporting date. Income and expense items are translated into Australian dollars at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve.

(d) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank, on hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

(e) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectibility of of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible aer written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Group will not be able to collect the debt.

(f) Investments

Investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments in controlled entities are measured at cost.

Impairment

If there is objective evidence that an investment is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised is recognised in the income statement.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value.

Significant accounting policies (continued)

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- *Raw materials* – purchase cost on a first –in, first-out basis;
- *Finished goods and work-in-progress* – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity but excluding borrowing costs.
- *Net realisable value* is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(h) Financial assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

Other financial assets are classified as follows: “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 as determined at the time of initial recognition.

Loans and receivables
Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

(i) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- Buildings – over 20 years
- Plant and equipment – between 5 to 10 years
- Other non-plant equipment – 5 years

Other non-plant equipment costing A$350 or less are written off in the month of purchase.

(j) Impairment of 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 exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Goodwill, 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 assets may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment 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 an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in 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.

Significant accounting policies (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (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.

(k) Leased assets

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

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.

(l) Financial Instruments

Debt equity instruments

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

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the cost relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(m) Trade and Other Payables

Trade and other payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company. Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive), as a result of a past event, and the future sacrifice of economic benefits is probable to settle the obligation, and the amount of the provision can be reliably measured.

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 flows. When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Significant accounting policies (continued)

(o) Employee Benefits

Provision is made for benefit accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made 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.

Provisions made 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 consolidated entity in respect of services provided by employees up to reporting date.

Defined Contribution Plan

Contributions to defined contributions plans are expensed when incurred.

(p) Revenue recognition

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

Sale of Goods

Revenue is recognised when all significant risks and rewards of ownership of the goods have been transferred to the buyer and can be measured reliably. Risks and rewards of ownership are considered transferred to the buyer at the time of delivery of the goods to the customer.

Interest revenue

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount the financial asset.

All revenue is stated net of the amount of goods and services tax (GST).

(q) Taxation

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 or prior periods is recognised as liability (or asset) to the extent that it is unpaid (or refundable)

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. 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 utilized. 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 or accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Significant accounting policies (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary difference 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 utilize 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 and are expected to apply to the period(s) when the assets and liabilities giving rise to them are realized 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 consolidated entity expects 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 consolidated entity 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.

(r) Other taxes

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

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the assets or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST included.
- The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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

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

(s) Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally–generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred. An intangible assets arising from development (or from the development phase of an internal project) is recognize if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale ;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

Significant accounting policies (continued)

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

(t) Interest bearing loans and borrowings

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

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

(u) Share Based Payments

The Group provides benefits to its key employees (including directors) and offtaker in the form of share-based payments, whereby key employees render services in exchange for rights over shares (equity-settled transactions).

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

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

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

(v) Earnings per share

Basic earnings per share

Basic earnings per share is determined by dividing the profit from ordinary activities after related income tax expense by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

Significant accounting policies (continued)

(w) Contributed equity

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(x) Judgements in applying accounting policies and key sources of estimation uncertainty

Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value in use, future cash flows are based on:

- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

Variations to the expected future cash flows, and the timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

Recoverability of potential deferred income tax assets

The Group recognises deferred income tax assets in respect of tax losses to the extent that it is probable that the future utilisation of these losses is considered probable. Assessing the future utilisation of these losses requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, this could result in significant changes to the deferred income tax assets recognised, which would in turn impact future financial results.