

SUCCESSFUL VARIATION TO FEEDSTOCK SUPPLY CONTRACT AND POTENTIAL USE OF CRUDE PALM OIL AS FEEDSTOCK

Sterling Biofuels International Limited (“SBI” or the “Company”) is pleased to announce that as part of its feedstock management strategy, it has successfully concluded negotiations with its feedstock provider, LDEO, to vary the feedstock contract whereby, SBI will now take delivery of a minimum of 2,000mt and a maximum of 4,000mt of Palm Olein a month (previously 6,000mt - 9,000 mt).

The revised contract provides the Company with the following key advantages:

Price Saving – the lower minimum order quantity of 2,000mt per month will enable the Company to secure alternative supply for the balance of its feedstock requirements, at lower prices. This will be achieved by purchasing feedstock at Sabah export prices rather than the published Malaysian Palm Oil Board price as is stipulated in the LDEO supply contract. It is expected that this will achieve a saving of **RM70-100/mt (A\$24-34/mt)**;

Hedging Flexibility – as feedstock prices are expected to trend lower for the forward months, the reduction in the minimum contracted purchase amount of palm olein allows the Company to position itself to take advantage of any forward reduction in feedstock prices and enter into contracts at prices and quantities acceptable to the Company.

Use of Alternate Feedstock – The SBI plant is able to produce biodiesel from multiple feedstocks. The variation in this contract allows the Company the flexibility to implement a range of strategies pertaining to the use of alternate feedstock. SBI is in the process of finalizing its investigations into the use of Crude Palm Oil (“CPO”) as an alternative and complementary feedstock to the palm olein to be purchased from LDEO. The use of CPO is expected to allow the Company to attract a nett saving of approximately **RM100/mt (A\$34/mt)** as compared with palm olein.

Desmet has confirmed that the Desmet technology can produce biodiesel using CPO as a primary feedstock. As a result, the Company is now investigating the addition of a pre treatment module at its plant which will allow the use of CPO as a feedstock. The capital expenditure in relation to the installation of this pre treatment module is approximately A\$3 million. Based on annual production of 100,000 tonnes, the payback for this capex is approximately 12 months. The Company will review this final investment decision in conjunction with the overall direction of the CPO price and the decision to commence commercial production in order to maximize the effectiveness of the investment and to continue to preserve its cash reserves.

Other Feedstock

The Company wishes to confirm that, at this stage, it will primarily be a palm oil based biodiesel producer. However as part of its ongoing feedstock management strategy, the Company is continually assessing alternative feedstock for their commercial viability and use in the production of biodiesel.

To this end, the Company has examined the use of Jatropha and at this stage is adopting a wait and see approach. Management currently considers that there are a number of key issues that need to be clarified or resolved before Jatropha can be seriously considered as a reliable feedstock source by the Company.

Given the recent feedstock price trends, management is of the view that the combined flexibility and cost savings of the above initiatives outweigh the fact that the Company will no longer have under contract, 100% supply of its feedstock requirements. This potential increase in feedstock supply risk is mitigated by a number of key factors, namely that, under the varied contract with LDEO, the Company is still able to secure half its feedstock requirements from them should it choose to do so. The strength and depth of palm oil experience within the management team and its' extensive network within the palm oil industry provides valuable insight into the various sources of palm based feedstock.

In addition to the matters outlined above, the Company wishes to confirm that it is also investigating a number of initiatives relating to the Company's participation in various upstream palm oil activities. The Company will keep the market informed in regards to any material developments in relation to these initiatives.

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