17 September 2007

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

AUDITED FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2007

Please find attached Sterling Biofuels International Limited's Audited Financial Report for the period ended 30 June 2007.

Yours sincerely

Tony Walsh
Company Secretary
Sterling Biofuels International Limited Company

STERLING BIOFUELS INTERNATIONAL LIMITED

AUDITED FINANCIAL REPORT

FOR THE PERIOD ENDED 30 JUNE 2007

ACN 119 880 492

Contents

Corporate Information and Directory

Directors

Chairman
Alister T Maitland

Director
Shariffuddin Khalid

Group Managing Director
CRS Paragash

Director
Adam Sierakowski

Group Executive Director
Andrew Phang

Company Secretary
Tony Walsh

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Auditors
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Perth WA 6000

ASX Code
SBI

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West Perth WA 6005

Share Registry
Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace
Perth WA 6000

Directors' Report

The directors of Sterling Biofuels International Limited ("SBIL") submit herewith the annual report of the company for the period from incorporation on 25 May 2006 to 30 June 2007. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

DIRECTORS

The names and details of the directors of the Company in office during the period and until the date of this report are:

Name and Qualifications	Particulars
Alister T Maitland *FAIM SFFin FAICD BCom*	*Chairman* Mr Maitland was appointed Chairman (independent non-executive) on 14 July 2006. Mr Maitland is a retired senior banker formerly with the ANZ Banking Group. He has been a member of several Federal Government Advisory Bodies, including the White Paper on Foreign Policy and Trade and a member of the Trade Policy Advisory Council. He is also Chairman/Board member of several ASX listed companies as well as public sector organizations. He is currently Chairman of Folkestone Ltd and a non-executive director of Lihir Gold Limited. During the past three years, Mr Maitland has also served as a Director of the following publicly listed companies:- • Ballarat Goldfields Ltd (Chairman) **Interest in SBIL shares/options**: 50,000 ordinary shares and 500,000 options to acquire 500,000 shares in the Company. Mr Maitland is a Member of the Audit and Risk Committee.
CRS Paragash *FCA*	*Group Managing Director* Mr Paragash joined the Board on 25 May 2006. Mr Paragash is a Fellow of the Institute of Chartered Accountants (England & Wales) and a member of the Malaysian Institute of Chartered Accountants. In the past, Mr Paragash has worked in Sime Darby Bhd (an international conglomerate). He has been a successful private equity investor involved in infrastructure and property for over 15 years. During the past three years, Mr Paragash has not served as a director of any other publicly listed company. **Interest in SBIL shares/options**: 30,000,000 shares in SBIL held indirectly through Duplex Fame Sdn Bhd.

Directors' Report (continued)

Andrew Phang
FFin LLM LLB

Group Executive Director
Mr Phang joined the Board on 25 May 2006. Andrew Phang is a Fellow of the Financial Services Institute of Australasia. A lawyer by training, he is a member of the Bar in New South Wales, Australia as well as in Malaysia. In his past career, he has held senior management posts in the Malaysian private sector as well as a Malaysian government agency.

During the past three years, Mr Phang has not served as a director of any other publicly listed company.

Interest in SBIL shares/options:
30,000,000 shares in SBIL held indirectly through Duplex Fame Sdn Bhd.

Adam Sierakowski

Director
Mr Sierakowski joined the Board on 21 June 2006. Adam Sierakowski is a lawyer and partner of the Perth-based legal firm of Price Sierakowski. He is the co-founder of a Perth-based corporate advisory business called Trident Capital. Mr Sierakowski has held board positions on ASX listed companies. He is a member of the Australian Institute of Company Directors, and the Association of Mining and Exploration Companies.

He is currently Chairman of Carnavale Resources Limited. During the past three years, Mr Sierakowski has also served as a Director of the following publicly listed company:

- Lach Drummond Resources Ltd

Interest in SBIL shares/options:
400,000 options to acquire 400,000 shares in the Company.

Mr Sierakowski is Chairman of the Audit and Risk Committee.

Shariffuddin Khalid
ACMA

Director
Mr Khalid joined the Board on 21 June 2006. Shariffuddin Khalid is a member of the Chartered Institute of Management Accountants (UK). A trained accountant, he worked at senior management level in the investment banking, telecommunications and services sector as well as the Malaysian public sector. Mr Khalid is currently employed at SPC Biodiesel Sdn Bhd (a 100% subsidiary of SBIL) as Director – Services.

During the past three years, Mr Khalid has not served as a director of any other publicly listed company.

Interest in SBIL shares/options:
550,000 performance rights to acquire 550,000 shares in the Company
400,000 options to acquire 400,000 shares in the Company.

Mr Khalid is a Member of the Audit and Risk Committee.

All directors held their position as a director from their respective date of their appointment and up to the date of this report.

Directors' Report (continued)

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

The following table sets out each director's relevant interest in shares or options in shares of the Company as at the date of this report.

Directors	Number of fully paid ordinary shares	Number of share options	Number of Performance Rights
A T Maitland	50,000	500,000	-
CRS Paragash	*30,000,000	-	-
Andrew Phang	*30,000,000	-	-
A Sierakowski	-	400,000	-
Shariffuddin Khalid	-	400,000	550,000

* held indirectly via Duplex Fame Sdn Bhd

COMPANY SECRETARY

Name and Qualifications	Particulars
Tony Walsh *BCom MBA CA*	Tony is a chartered accountant and has been Company Secretary and Chief Financial Officer of the Company since 25 May 2006. Prior to this Tony spent 14 years working with ASX.

DIVIDENDS

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

PRINCIPAL ACTIVITIES

During the period under review, the principal activity of the Group was the construction of a 100,000 tonne per annum multi-feedstock biodiesel manufacturing plant at Lahad Datu in the Malaysian state of Sabah.

OPERATIONAL AND FINANCIAL REVIEW

Group Overview

Sterling Biofuels International Limited was established in May 2006 in response to the growing demand for renewable energy, in particular, biodiesel. The Company aims to become a leading producer of quality biodiesel using palm oil as its primary feedstock.

During the period under review, the Company undertook an initial public offering exercise raising $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.

Through its wholly owned Malaysian subsidiary, SPC Biodiesel, the Company successfully completed construction of its first 100,000 tonne per annum biodiesel plant on time and under budget. Delivery of the plant in July 2007 at a cost of $19.4 million (some 9% below the budgeted cost of $21.3 million) positions the Company to commence commercial operations.

As a result of the unexpected spike in feedstock prices that started towards the end of last year, the Group successfully negotiated a variation of its feedstock supply contract with LDEO to reduce the minimum order quantity under the contract. This enables the Group to secure alternative supply at lower prices and implement a range of strategies relating to the use of alternative palm based feedstock.

Directors' Report (continued)

As part of its feedstock management strategy, the Group has also accelerated its expansion into upstream activities as a means of reducing overall feedstock costs over the medium to longer term. These are potentially very exciting developments for the Group and, when completed, will not only position the Group to better withstand future spikes in feedstock prices but allow the Group to capitalize on the entire palm oil/biodiesel industry value chain.

Dynamics of the Business

Completion of the biodiesel plant on time and under budget has removed one of the main risks associated with the Group's business. Henceforth, the business dynamics will to a large extent be influenced by what happens in the palm oil market (our feedstock) and the biodiesel market.

While the spike in feedstock prices has continued for longer than we expected, there are signs that prices are weakening and returning towards historical levels taking into account higher demand for palm oil. Completion of the biodiesel plant means we are ready to commence production as soon as feedstock prices warrant it. Over the longer term, the steps we are taking to expand upstream will position us to withstand future spikes in feedstock prices.

In the biodiesel markets, the outlook remains strong. In our key European market, the European Commission has recommended further action to enhance the European Union's climate policies. These include increasing the share of renewable energy to 20% by 2020. In the United States, the plan to reduce gasoline use by 20% over 10 years involves setting a mandatory fuels standard to use 35 billion gallons of renewable and alternative fuels by 2017 (nearly five times the 2012 target currently in law).

During the period under review and notwithstanding the spike in feedstock prices, we saw the increasing availability (and acceptance) of biodiesel produced from palm oil as opposed to that produced from rapeseed oil. This increased visibility can only improve as palm based biodiesel producers begin to ship larger volumes on a more regular basis which in turn will lead to a better understanding of the qualities of palm based biodiesel. This is important if the current discount in the price of palm based biodiesel to that produced from rapeseed oil is to be overcome.

In this regard, we believe our continued focus on quality will have a positive impact and in time distinguish us as a leading producer of economically sustainable and renewable energy in the region. Our hands-on plantation experience together with steps being taken to mitigate rising feedstock prices stand us in good stead for the future.

Directors' Report (continued)

Operating Results for the Year

During the period under review, the Company made a net loss of $2.968 million which was lower than the loss of $3.817 million forecast in the prospectus.

There were no operations as the biodiesel plant was still under construction during the period.

As such, there was no revenue 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 Malaysian 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.

The capital cost for completing the plant was $19.4 million. Of this sum, an amount of $17.474 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 included amounts payable to contractors for the construction of the biodiesel plant. Since the end of the financial year and except for retention sums, all monies due to the contractors have been paid.

Summarised operating results are as follows:

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	17,474	230	Up $17.2 million

Shareholder Returns

As expected, there were no returns to shareholders during the period given that the biodiesel plant was still under construction. As a result, the earnings per share was (5.15) cents.

Directors' Report (continued)

Review of Financial Conditions

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

Net cash outflows from operating activities increased to $2.021 million from $1.431 million. These related to employee costs and payments to suppliers.

Net cash outflows from investing activities increased to $15.866 million from $0.23 million. These were mainly attributable to capital expenditure on the plant site and 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.

The Company's cash balance as at 30 June 2007 was $13.328 million. This cash balance together with the value of its constructed plant places the Company in a strong net asset position to ride out the current spike in palm oil prices and meet operating expenditure for the next financial year.

Risk management and corporate governance practices

The Board regularly reviews operating and financial information and is kept informed by senior management and the audit and risk committee of any significant events affecting the Group's operations.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:
- implementation of board approved operating plans and budgets and board monitoring of the progress, both of a financial and non-financial nature, against these budgets; and
- the requirement of the Group Managing Director and Chief Financial Officer to certify the integrity of the financial statements and the effectiveness of the internal control systems.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

This is the first annual financial report prepared by the Company and covers the period from incorporation on 25 May 2006 to 30 June 2007. During the financial period the Company raised $31.8 million from the issue of shares (net of costs), listed on the Australian Stock Exchange and substantially completed construction of a biodiesel plant.

SIGNIFICANT EVENT AFTER THE BALANCE SHEET DATE

On 13 September 2007, the Company announced that it had, through a newly incorporated, wholly owned Malaysian company, acquired 70% of the issued share capital of UTE Power Sdn Bhd, a Malaysian company, which has been granted the right to develop 10,600 acres of land into an oil palm plantation for a period of 60 years with an option to renew for another 30 years. Under the terms of the acquisition, the Group will make a nominal up front payment for its stake in UTE Power Sdn Bhd and will take on the responsibility for funding the development of the oil palm plantation. The cost of development is estimated at A$14.9 million spread over 5 years.

As at the date of the report no other matter or circumstance has arisen that has significantly affected, or may significantly affect, the operations of Sterling Biofuels International Limited and its controlled entity, the results of those operations or the state of affairs of Sterling Biofuels International Limited and its controlled entity in subsequent years that is not otherwise disclosed in this report or the consolidated financial statements.

Directors' Report (continued)

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The directors are optimistic about the future prospects of the Company.

The construction of the biodiesel plant has been completed. The plant is ready to commence production in the 2008 financial year. The upstream activities that have been initiated will eventually position the Group to better deal with fluctuations in the price of feedstock. The market drivers that ultimately affect the demand for biodiesel remain strong.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

The Group has received relevant approvals from environmental protection authorities in Malaysia where the biodiesel plant is situated. These approvals require the Group to comply with environmental regulations. The directors are not aware of any breaches of such environmental regulations during the period of this report.

SHARE OPTIONS

As at the date of this report there were 1,550,000 unissued ordinary shares under options (1,550,000 at the reporting date). Refer to the remuneration report for further details of the options outstanding. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

Shares issued as a result of exercise of options

No shares have been issued during or since the end of the financial period as a result of exercise of an option.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial period, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the Company Secretary and all executive officers of the Company and of any subsidiary against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The nature of the liability and the amount of premium paid has not been disclosed due to confidentiality purposes.

The Company has not otherwise, during or since the financial period, except to the amount permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' Report (continued)

REMUNERATION REPORT (Audited)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. It also provides the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of AASB 124 Related Party Disclosures, which have been transferred to the Remuneration Report in accordance with Corporations Regulations 2M.6.04. For the purposes of this report Key Management Personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company and the group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the executives in the parent and the group receiving the highest remuneration.

Remuneration Philosophy

The Board is responsible for reviewing the compensation arrangements for the directors and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis. The overall objective is the retention of a high quality board and executive team, to maximise value of the shareholders' investment.

Non-Executive Directors' Fees

The Constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the General Meeting held on 31 July 2006 when shareholders approved the aggregate remuneration of $250,000 per year.

The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external consultants, as well as the fees paid to non-executive directors of comparable companies, when undertaking the annual review process.

During the period the Company issued 500,000, 400,000 and 400,000 options (details of which are disclosed in the relevant table in this report), to Messrs Maitland, Khalid and Sierakowski respectively and 550,000 performance rights to Mr Khalid (refer to note 20 of the financial statements). These allocations were individually approved by shareholders at the General Meeting held on 31 July 2006.

Executive Salary

The remuneration of executives is reviewed annually with the review taking into consideration the contribution of the individual commensurate with the performance of the Group and comparable employment market conditions. Except for vesting conditions of options (refer to note 20 of the financial statements), no component of the executive salary is at risk and the Company does not have a formal cash incentive or bonus scheme. A one-off bonus was granted and paid to certain executives (refer to remuneration table below) on 27 June 2007 reflecting the completion of the production plant as at that date.

Directors' Report (continued)

Employment Contracts

The Group Managing Director, Mr CRS Paragash, is employed under contract. The current employment contract commenced on 1 July 2006 and terminates on 30 June 2009. During the period, Mr Paragash received remuneration as disclosed in the relevant tables in this report. Mr Paragash or the Company can terminate the contract by giving 3 months notice.

The Group Executive Director, Mr Andrew Phang, is employed under contract. The current employment contract commenced on 1 July 2006 and terminates on 30 June 2009. During the period, Mr Phang received remuneration as disclosed in the relevant tables in this report. Mr Phang or the Company can terminate the contract by giving 3 months notice.

Mr Shariffuddin Khalid is an employee of SPC Biodiesel Sdn Bhd and is employed under contract. The current employment contract commenced on 1 July 2006 and terminates on 30 June 2009. During the period, Mr Khalid received remuneration as disclosed in the relevant tables in this report. Mr Khalid or SPC Biodiesel Sdn Bhd can terminate the contract by giving 3 months notice.

Remuneration of Key Management Personnel ("KMP")

The directors and the Company executives and Group executives received the following amounts as compensation for their services as directors and executives of the Company and/or the Group during the period:

(see next page)

Directors' Report

Remuneration of Key Management Personnel for the year ended 30 June 2007

	Short-term			Post-employment	Share-based payments						
Name	**Salary and directors fees**	**Bonus**	**Non-monetary benefits**	**Super-annuation**	**Options**	**Performance rights***	**Total**	**(bonus per total remuneration)**	**(options per total remuneration)**	**(performance rights per total remuneration)**	**Total performance related**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**%**	**%**	**%**	**%**
Non-executive directors											
A T Maitland	66,055	-	-	5,945	53,598	-	125,598	-	43	-	43
Shariffuddin Khalid	**147,166	10,226	-	15,503	42,879	49,623	265,397	4	16	19	39
A Sierakowski	48,000	-	-	-	42,879	-	90,879	-	47	-	47
Sub-total non-executive directors	261,221	10,226	-	21,448	139,356	49,623	481,874				
Executive directors											
CRS Paragash	216,000	-	-	19,440	-	-	235,440	-	-	-	-
Andrew Phang	180,000	-	1,671	16,200	-	-	197,871	-	-	-	-
Sub-total executive directors	396,000	-	1,671	35,640	-	-	433,311				
Other KMP											
T Walsh	72,000	-	-	-	26,799	-	98,799	-	27	-	27
M K Thorley	211,587	34,087	33,909	-	-	90,223	369,806	9	-	24	33
I A Hamid	103,130	23,861	-	13,176	-	90,223	230,390	10	-	39	49
J Leong	103,130	10,226	-	11,540	-	49,623	174,519	6	-	28	34
C Menon	68,037	6,817	-	-	-	-	74,854	9	-	-	9
Sub-total other KMP	557,884	74,991	33,909	24,716	26,799	230,069	948,368				
Total	1,215,105	85,217	35,580	81,804	166,155	279,692	1,863,553				

* these rights are exercisable only upon certain performance conditions being met (see Note 20 (b) – Financial Statements)

** this figure includes a salary of A$103,130 paid to Mr Khalid by SPC Biodiesel Sdn Bhd.

Directors' Report

Compensation options: granted and vested during the year (consolidated)

During or since the financial period an aggregate of options were granted to the following directors and executives of the Company as part of their remuneration:

	Granted	Terms and conditions for each grant						Vested	
	No.	Grant date	Fair value per option at grant date	Exercise price per option	Expiry date	First exercise date	Last exercise date	No.	%
			$	$					
Directors									
A T Maitland	**500,000**	04/08/06							
-Tranche A	150,000		0.2518	1.00	25/09/09	25/09/07	25/09/09	-	-
-Tranche B	200,000		0.1934	1.20	25/09/10	25/09/08	25/09/10	-	-
-Tranche C	150,000		0.1499	1.40	25/09/11	25/09/09	25/09/11	-	-
CRS Paragash	Nil								
Andrew Phang	Nil								
Shariffuddin Khalid	**400,000**	04/08/06							
-Tranche A	120,000		0.2518	1.00	25/09/09	25/09/07	25/09/09	-	-
-Tranche B	160,000		0.1934	1.20	25/09/10	25/09/08	25/09/10	-	-
-Tranche C	120,000		0.1499	1.40	25/09/11	25/09/09	25/0/11	-	-
A Sierakowski	**400,000**	04/08/06							
-Tranche A	120,000		0.2518	1.00	25/09/09	25/09/07	25/09/09	-	-
-Tranche B	160,000		0.1934	1.20	25/09/10	25/09/08	25/09/10	-	-
-Tranche C	120,000		0.1499	1.40	25/09/11	25/09/09	25/09/11	-	-

Directors' Report (continued)

	Granted	Terms and conditions for each grant						Vested	
	No.	Grant date	Fair value per option at grant date	Exercise price per option	Expiry date	First exercise date	Last exercise date	No.	%
			$	$					
Executives									
T Walsh	**250,000**	04/08/06							
-Tranche A	75,000		0.2518	1.00	25/09/09	25/09/07	25/09/09	-	-
-Tranche B	100,000		0.1934	1.20	25/09/10	25/09/08	25/09/10	-	-
-Tranche C	75,000		0.1499	1.40	25/09/11	25/09/09	25/09/11	-	-
M K Thorley	Nil								
I A Hamid	Nil								
J Leong	Nil								
C Menon	Nil								
Total	**1,550,000**								

Directors' Report (continued)

Options granted as part of remuneration

	Value of options granted during the period	Value of options exercised during the period	Value of options lapsed during the period	Total
	$	$	$	$
Directors				
A T Maitland	98,935	-	-	98,935
CRS Paragash	-	-	-	-
Andrew Phang	-	-	-	-
Shariffuddin Khalid	79,148	-	-	79,148
A Sierakowski	79,148	-	-	79,148
Executives				
T Walsh	49,468	-	-	49,468
M K Thorley	-	-	-	-
I A Hamid	-	-	-	-
J Leong	-	-	-	-
C Menon	-	-	-	-
Total	306,699	-	-	306,699

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. There were no forfeitures or exercise of options during the period or since the period end.

The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards. Fair value at grant date is determined using the Binomial option pricing model. For further details on the valuation of options please refer to Note 20.

Directors' Report (continued)

Performance rights granted as part of remuneration

	No of performance rights issued during the period	Fair value of performance right at grant date
		$
Directors/Executives		
M K Thorley	1,000,000	820,900
I A Hamid	1,000,000	820,900
J Leong	550,000	451,495
Shariffuddin Khalid	550,000	451,495
	3,100,000	

No shares were issued during the period as a result of the conditions of performance rights being met. No performance rights lapsed or were forfeited during the period.

Directors' Report

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings and committee meetings held during the financial period and the number of meetings attended by each director (while they were a director or committee member).

	Board of Directors		Audit and Risk Committee	
Directors	**Held**	**Attended**	**Held**	**Attended**
A T Maitland	11	11	2	2
CRS Paragash	12	12	-	-
Andrew Phang	12	12	-	-
Shariffuddin Khalid	12	12	2	2
A Sierakowski	12	12	2	2

Unless otherwise indicated, all directors were eligible to attend all board meetings held.

Committee Membership

As at the date of this report the Company had an Audit and Risk Committee of the Board of Directors. Members of this committee during the period were:
A Sierakowski (Committee Chairman)
A T Maitland
Shariffuddin Khalid

ROUNDING

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998 and, in accordance with that Class Order, amounts in the directors' report and the financial report are rounded to the nearest $1,000 (where rounding is applicable).

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the period by the auditor are outlined in note 23 to the financial statements. The directors are satisfied that the provision of non-audit services during the period by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration is included on page 57 of the financial report.

Signed in accordance with a resolution of the directors.

Alister Maitland
Chairman

CRS Paragash
Group Managing Director

Perth, 17 September 2007

Income Statement
For the Period Ended 30 June 2007

	NOTE	CONSOLIDATED Year ended 30 June 2007 $'000	CONSOLIDATED 16 December 2005 to 30 June 2006 $'000	COMPANY 25 May 2006 to 30 June 2007 $'000
Continuing operations				
Revenue	6(a)	1,051	-	1,047
Raw materials and consumables used		(306)	-	-
Employee benefits expense	6(b)	(2,233)	(182)	(1,170)
Depreciation and amortisation expense	6(c)	(39)	(5)	(1)
Distribution expense	6(d)	(305)	-	(305)
Occupancy costs		(119)	(24)	(21)
Travel expense		(299)	(136)	(32)
Impairment of investment in controlled entity	12	-	-	(3,735)
Loss on foreign exchange		(399)	-	(815)
Other expenses		(319)	(1,089)	(203)
LOSS BEFORE INCOME TAX		(2,968)	(1,436)	(5,235)
Income tax expense	7	-	-	-
NET LOSS ATTRIBUTABLE TO MEMBERS OF THE ENTITY		(2,968)	(1,436)	(5,235)
Basic and diluted loss per share (cents per share)	17	(5.15)	(25.61)	

Balance Sheet
As at 30 June 2007

	NOTE	CONSOLIDATED 30 June 2007 $'000	CONSOLIDATED 30 June 2006 $'000	COMPANY 30 June 2007 $'000
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	18(a)	13,328	5	11,761
Other current assets	8	177	129	-
TOTAL CURRENT ASSETS		13,505	134	11,761
NON-CURRENT ASSETS				
Other receivables	9	-	-	6,977
Property, plant and equipment	10	15,836	225	7
Prepaid land lease payments	11	1,589	-	-
Other financial assets	12	-	-	9,831
TOTAL NON-CURRENT ASSETS		17,425	225	16,815
TOTAL ASSETS		30,930	359	28,576
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	13	2,365	1,326	281
Interest bearing loans and borrowings	14	20	-	-
TOTAL CURRENT LIABILITIES		2,385	1,326	281
NON-CURRENT LIABILITIES				
Other payables	13	806	-	636
Interest bearing loans and borrowings	14	80	-	-
TOTAL NON-CURRENT LIABILITIES		886	-	636
TOTAL LIABILITIES		3,271	1,326	917
NET ASSETS/(LIABILITIES)		27,659	(967)	27,659
EQUITY				
Equity attributable to equity holders of the parent				
Issued capital	15	32,143	473	32,143
Accumulated losses		(4,404)	(1,436)	(5,235)
Reserves	16	(80)	(4)	751
TOTAL EQUITY/(DEFICIT)		27,659	(967)	27,659

Statement of Changes in Equity
For the Period Ended 30 June 2007

CONSOLIDATED	*Issued Capital $'000*	*Accumulated Losses $'000*	*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)
Total income/(expense) for the period recognised directly in equity	-	-	-	(4)	(4)
Loss for the period	-	(1,436)	-	-	(1,436)
Total income/(expense) for the period	-	(1,436)	-	(4)	(1,440)
Issue of share capital	473	-	-	-	473
At 30 June 2006	473	(1,436)	-	(4)	(967)
Exchange differences arising on translation of foreign operations	-	-	-	(827)	(827)
Total income/(expense) for the period recognised directly in equity	-		-	(827)	(827)
Loss for the period	-	(2,968)	-	-	(2,968)
Total income/(expense) for the period	-	(2,968)	-	(827)	(3,795)
Cost of share-based payment	-	-	751	-	751
Issue of share capital	35,000	-	-	-	35,000
Costs of issue of shares	(3,330)	-	-	-	(3,330)
At 30 June 2007	32,143	(4,404)	751	(831)	27,659

COMPANY					
At 25 May 2006	473	-	-	-	473
Total income/(expense) for the period recognised directly in equity	-	-	-	-	-
Loss for the period	-	(5,235)	-	-	(5,235)
Total income/(expense) for the period	-	(5,235)	-	-	(5,235)
Cost of share-based payment	-	-	751	-	751
Issue of share capital	35,000	-	-	-	35,000
Costs of issue of shares	(3,330)	-	-	-	(3,330)
At 30 June 2007	32,143	(5,235)	751	-	27,659

Cash Flow Statement
For the Period Ended 30 June 2007

	NOTE	CONSOLIDATED Year ended 30 June 2007 $'000	CONSOLIDATED 16 December 2005 to 30 June 2006 $'000	COMPANY 25 May 2006 to 30 June 2007 $'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments to suppliers and employees		(3,072)	(1,431)	(1,097)
Interest received		1,051	-	1,047
NET CASH FLOWS USED IN OPERATING ACTIVITIES	18(b)	(2,021)	(1,431)	(50)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(15,866)	(230)	(8)
Investment in controlled entity		-	-	(13,566)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(15,866)	(230)	(13,574)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares		35,000	473	35,000
Transaction costs of issue of shares		(3,201)	(129)	(3,330)
(Repayment of)/proceeds from borrowings		(451)	1,321	(6,285)
NET CASH FLOWS FROM FINANCING ACTIVITIES		31,348	1,665	25,385
NET INCREASE IN CASH AND CASH EQUIVALENTS		13,461	4	11,761
NET FOREIGN EXCHANGE DIFFERENCES		(138)	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		5	1	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	18(a)	13,328	5	11,761

Notes to the Financial Statements

1. CORPORATE INFORMATION

The financial report of Sterling Biofuels International Limited for the period ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on the date of approval of the Directors' Report.

Sterling Biofuels International Limited is a company limited by shares, incorporated in Australia, whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ("$'000"), unless otherwise stated, under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRS"). The financial report also complies with International Financial Reporting Standards ("IFRS").

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2007 are outlined below:

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amendments arise from the release in August 2005 of AASB 7 *Financial Instruments: Disclosures.*	1 January 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1 July 2007

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 10 [AASB 2]	Amending standard issued as a consequence of AASB Interpretation 10 *Interim Financial Reporting and Impairment*.	1 March 2007	This is consistent with the Group's existing accounting policies for share-based payments. Therefore no impact.	1 July 2007
AASB 2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]	Amending standard issued as a consequence of AASB Interpretation 12 *Service Concession Arrangements*.	1 January 2007	As the Group currently has no service concession arrangements or public-private-partnerships (PPP), it is expected that this Interpretation will have no impact on its financial report.	1 July 2007
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 8 *Operating Segments*.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However the new standard is expected to have an impact on the Group's segment disclosures as segment information based on management reports are more detailed than those currently reported under AASB 114.	1 July 2009
AASB 7	*Financial Instruments: Disclosures*	New standard replacing disclosure requirements of AASB 132.	1 January 2007	Refer to AASB 2005-10 above.	1 July 2007
AASB 8	*Operating Segments*	This new standard will replace AASB 114 *Segment Reporting* and adopts a management approach to segment reporting.	1 January 2009	Refer to AASB 2007-3 above.	1 July 2009

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

AASB 101	*Presentation of Financial Statements*	Many of the disclosures from previous GAAP and all of the guidance from previous GAAP are not carried forward in the October 2006 version of AASB 101. The revised standard includes some text from IAS 1 that is not in the existing AASB 101 and has fewer additional Australian disclosure requirements than the existing AASB 101.	1 January 2007	AASB 101 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However the revised standard may result in changes to the disclosures included in the Group's financial report.	1 July 2007
AASB 123 (revised June 2007)	*Borrowing Costs*	AASB 123 previously permitted entities to choose between expensing all borrowing costs and capitalising those that were attributable to acquisition, production or production of a qualifying asset.	1 January 2009	Refer to AASB 2007-6 above.	1 July 2009
AASB Interpre-tation 10	*Interim Financial Reporting and Impairment*	Addresses an inconsistency between AASB 134 *Interim Financial Reporting* and the impairment requirements relating to goodwill in AASB 136 *Impairment of Assets* and equity instruments classified as available for sale in AASB 139 *Financial Instruments: Recognition and Measurement*.	1 November 2006	The prohibitions on reversing impairment losses in AASB 136 and AASB 139 to take precedence over the more general statement in AASB 134 is not expected to have any impact on the Group's financial report.	1 July 2007
AASB Interpre-tation 11	*Group and Treasury Share Transactions*	Specifies that a share-based payment transaction in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity-settled.	1 March 2007	Refer to AASB 2007-1 above.	1 July 2007

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

AASB Interpre-tation 12	*Service Concession Arrangements*	Clarifies how operators recognise the infrastructure as a financial asset and/or an intangible asset – not as property, plant and equipment.	1 January 2007	Refer to AASB 2007-2 above.	1 July 2007
AASB Interpre-tation 129 (revised June 2007)	*Service Concession Arrangements: Disclosures*	The revised Interpretation was issued as a result of the issue of Interpretation 12 and requires specific disclosures about service concession arrangements entered into by an entity, whether as a concession provider or as a concession operator.	1 January 2008	Refer to AASB 2007-2 above.	1 July 2008
AASB Interpre-tation 13	*Customer Loyalty Programmes*	Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services.	1 July 2008	The Group does not have any customer loyalty programmes and as such this standard is not expected to have any impact on the Group's financial report.	1 July 2008
AASB Interpre-tation 14	*IAS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements*	Aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan.	1 January 2008	The Group does not have a defined benefit pension plan and as such this standard is not expected to have any impact on the Group's financial report.	1 July 2008

*Application date is for the annual reporting periods beginning on or after the date shown in the above table.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Principles of consolidation

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

Reverse acquisition

On 31 May 2006, Sterling effectively acquired all the issued capital of SPC Biodiesel. Sterling issued 30 million ordinary shares in return for 100% of the share capital of SPC Biodiesel. SPC Biodiesel was identified as the acquirer in relation to the combination. Accordingly, the combination has been accounted for as a reverse acquisition. However Sterling did not trade prior to the transaction and accordingly is not considered to constitute a business.

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 25 May 2006 (date of incorporation of Sterling Biofuels International Limited) to 30 June 2007.

Controlled entity

The financial statements of the controlled entity are prepared as at the same reporting period as the parent company, using consistent accounting policies. The financial statements of the controlled entity are included in the consolidated financial statements from 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.

(d) 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 to those of segments operating in other economic environments.

(e) Foreign currency translation

Both the functional and presentation currency of Sterling 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 sheet date all foreign currency monetary items are translated using the exchange rate ruling on that 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 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.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(f) Cash and cash equivalents
Cash and cash equivalents 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.

(g) 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 trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are 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.

(h) 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.

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

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

- *Raw materials*
  purchase cost is assigned on the weighted average cost 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*
  the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Property, plant and equipment

Property, 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

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(k) 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.

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.

(l) 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.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(m) Trade and other payables

Trade and other payables are recognised at amortised cost and they represent 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.

(o) Employee benefits

Provision is made for benefit 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. 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 the Group 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 of the financial asset.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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;
- Receivables and payables are stated with the amount of GST included; and
- 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.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 asset arising from development (or from the development phase of an internal project) is recognised 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;
- 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 at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

(u) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(v) 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 shares or 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

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 17).

(w) 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.

(x) 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.

Notes to the Financial Statements

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management objectives and policies
The Group's principal financial instruments are cash and short term deposits, and finance leases. The Group has various other financial liabilities, such as trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arise from the Group's financial instruments are interest rate risks, liquidity risk and credit risks. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

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 recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

a) Interest rate risk
The Group's exposure to interest rate risk is minimal.

b) Foreign exchange risk
The Group incurred foreign currency risk on sales and purchases that are denominated in a currency other than its functional currencies and presentation currency. The currencies giving rise to this risk are US Dollars and Malaysian Ringgit. The Group does not manage foreign currency risk through the purchase of foreign currency financial instruments.

c) Credit risk exposures
The Group's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet. Credit risk on unrecognised financial instruments refers to the potential financial loss to the consolidated entity that may result from counter parties failing to meet their contractual obligations. The Group manages its counterparty credit risk by limiting its transactions to counterparties of sound credit worthiness and avoiding undue exposure to any single counterparty. The Group did not face any significant credit exposures at balance date.

d) Liquidity risk
The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

Notes to the Financial Statements

4. 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 plant and equipment

Plant and equipment are 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:

- 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.

Notes to the Financial Statements

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.

	CONSOLIDATED		COMPANY
	Year ended 30 June 2007	16 December 2005 to 30 June 2006	25 May 2006 to 30 June 2007
	$'000	$'000	$'000
6. REVENUES AND EXPENSES			
(a) Revenue			
Finance income - interest	1,051	-	1,047
(b) Employee benefits			
Wages and salaries	1,748	182	685
Superannuation	39	-	39
Share-based payment expense	446	-	446
	2,233	182	1,170
(c) Depreciation and amortisation			
Property, plant and equipment	20	5	1
Amortisation of initial lease payment (note 6(e))	19	-	-
	39	5	1
(d) Distribution			
Share-based payment expense to offtaker	305	-	305
(e) Lease payments included in income statement			
Minimum lease payments - operating lease	33	4	21
Amortisation of initial lease payment (note 6(c))	19	-	-
	52	4	21

Notes to the Financial Statements

	CONSOLIDATED Year ended 30 June 2007 $'000	CONSOLIDATED 16 December 2005 to 30 June 2006 $'000	COMPANY 25 May 2006 to 30 June 2007 $'000
7. INCOME TAX			
The major components of income tax are:			
Income Statement			
Current income tax			
Current year	-	-	-
Deferred income tax			
Relating to origination and reversal of temporary differences	-	-	-
Income tax reported in the income statement	-	-	-

A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting loss before income tax	(2,968)	(1,436)	(5,235)
At the Group's statutory income tax rate of 30% (2006: 30%)	(890)	(431)	(1,571)
Impairment loss on investment in controlled entity	-	-	1,120
Black hole expenses	(200)	-	(200)
Share-based payments	225	-	225
Losses in foreign operations	565	431	-
Deferred tax assets on temporary differences and tax losses not brought to account as realisation is not regarded as probable	300	-	426
Income tax reported in the income statement	-	-	-

Notes to the Financial Statements

7. INCOME TAX (continued)

	Balance Sheet		Income Statement	
				16 December
			Year ended	2005 to
	30 June	30 June	30 June	30 June
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED				
Deferred tax assets				
Losses available for offset against future taxable income	300	-	300	-
Deferred tax assets on temporary differences not brought to account as realisation is not regarded as probable	(300)	-	(300)	-
	-	-		
Deferred tax income/(expense)			-	-

	Balance Sheet	Income Statement
		25 May 2006 to
	30 June 2007	30 June 2007
	$'000	$'000
COMPANY		
Deferred tax assets		
Unrealised foreign exchange loss on loan to controlled entity	126	126
Losses available for offset against future taxable income	300	300
Deferred tax assets on temporary differences not brought to account as realisation is not regarded as probable	(426)	(426)
	-	
Deferred tax income/(expense)		-

Sterling Biofuels International Limited has not formed a tax consolidated group.

Estimated unrecouped income tax losses of $300,000 are available indefinitely to be offset against future years' taxable income. Deferred tax assets have not been brought to account as, in the opinion of the directors, their realisation is not probable. Unrecognised deferred tax assets will be brought to account over future years as and when it is considered probable that they will be realised.

Notes to the Financial Statements

	CONSOLIDATED		COMPANY
	30 June 2007 $'000	30 June 2006 $'000	30 June 2007 $'000
8. OTHER CURRENT ASSETS			
Prepayments and deposits	177	-	-
Prepaid share issue costs relating to share issue in future period	-	129	-
	177	129	-

9. OTHER RECEIVABLES (NON-CURRENT)

Related party receivables			
Wholly-owned group			
- loan to controlled entity	-	-	6,977

Loan to controlled entity is non-trade related, unsecured, non-interest bearing and has no fixed terms of repayment.

Notes to the Financial Statements

	CONSOLIDATED 30 June 2007 $'000	CONSOLIDATED 30 June 2006 $'000	COMPANY 30 June 2007 $'000
10. PROPERTY, PLANT AND EQUIPMENT			
Biodiesel plant and equipment under construction			
At cost	14,677	218	-
	14,677	218	-
Buildings under construction			
At cost	810	-	-
	810	-	-
Motor vehicles			
At cost	222	-	-
Less accumulated depreciation	(15)	-	-
	207	-	-
Motor vehicles – under finance lease			
At cost	102	-	-
Less accumulated depreciation	(3)	-	-
	99	-	-
Office equipment			
At cost	50	12	8
Less accumulated depreciation	(7)	(5)	(1)
	43	7	7
Total property, plant and equipment	15,836	225	7
Biodiesel plant and equipment under construction			
Carrying amount at beginning	218	-	-
Additions	14,459	218	-
Depreciation expense	-	-	-
Carrying amount at end	14,677	218	-
Buildings under construction			
Carrying amount at beginning	-	-	-
Additions	810	-	-
Depreciation expense	-	-	-
Carrying amount at end	810	-	-
Motor vehicles			
Carrying amount at beginning	-	-	-
Additions	222	-	-
Depreciation expense	(15)	-	-
Carrying amount at end	207	-	-

Notes to the Financial Statements

10. PROPERTY, PLANT AND EQUIPMENT (continued)

	CONSOLIDATED		COMPANY
	30 June 2007 $'000	30 June 2006 $'000	30 June 2007 $'000
Motor vehicles – under finance lease			
Carrying amount at beginning	-	-	-
Additions	102	-	-
Depreciation expense	(3)	-	-
Carrying amount at end	99	-	-
Office equipment			
Carrying amount at beginning	7	-	-
Additions	38	12	8
Depreciation expense	(2)	(5)	(1)
Carrying amount at end	43	7	7

11. PREPAID LAND LEASE PAYMENTS

Payment for lease of land	1,608	-	-
Less: accumulated amortisation of operating lease payments	(19)	-	-
	1,589	-	-

Prepaid costs relate to the initial payment for an operating lease of land which is amortised over a period of fifty (50) years.

12. OTHER FINANCIAL ASSETS

a) Investments in controlled entity – at cost	-	-	13,566
Less impairment	-	-	(3,735)
	-	-	9,831

The amount of the impairment has been measured as the difference between the net assets of the controlled entity and the investment in the controlled entity.

b) Controlled entity

The consolidated financial statements include the financial statements of Sterling Biofuels International Limited and the controlled entity listed in the following table:

CONTROLLED ENTITY	PRINCIPAL ACTIVITY	BENEFICIAL % HELD BY THE CONSOLIDATED ENTITY %	BOOK VALUE OF INVESTMENT $'000
Incorporated in Malaysia:			
SPC Biodiesel Sdn Bhd	Manufacture and export of biodiesel	100	9,831

Investment in the controlled entity is in ordinary shares.

Notes to the Financial Statements

	CONSOLIDATED 30 June 2007 $'000	CONSOLIDATED 30 June 2006 $'000	COMPANY 30 June 2007 $'000
13. TRADE AND OTHER PAYABLES			
Current			
Trade payables	70	-	-
Other payables	2,295	1,326	281
	2,365	1,326	281
Non-current			
Other payables	806	-	636

Current trade and other payables are non-interest bearing and are normally settled on 30 day terms.

Non-current payables are unsecured and have no fixed terms of repayment.

	CONSOLIDATED 30 June 2007 $'000	CONSOLIDATED 30 June 2006 $'000	COMPANY 30 June 2007 $'000
14. INTEREST BEARING LOANS AND BORROWINGS			
Current			
Obligations under hire purchase contracts	20	-	-
Non-current			
Obligations under hire purchase contracts	80	-	-

Notes to the Financial Statements

	CONSOLIDATED		COMPANY
	30 June 2007 $'000	30 June 2006 $'000	30 June 2007 $'000
15. ISSUED CAPITAL			
a) Issued and paid up capital			
Ordinary shares fully paid	32,143	473	32,143

	NUMBER OF SHARES	$'000
b) Movements in shares on issue		
Beginning of the financial period	4	473
Issued for the reverse acquisition of Sterling Biofuels International Limited	29,999,996	-
Share issue	35,000,000	35,000
Less share issue costs	-	(3,330)
End of the financial period	65,000,000	32,143

c) Share options and performance rights

The Company has a share-based payment scheme under which performance rights and options to subscribe for the Company's shares have been granted to certain executives and other employees (refer note 20).

d) Terms and conditions

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

As per the Corporations Act 2001, the Company does not have authorised capital and its ordinary shares do not have a par value.

Options

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

Notes to the Financial Statements

16. RESERVES	CONSOLIDATED 30 June 2007 $'000	30 June 2006 $'000	COMPANY 30 June 2007 $'000
Equity benefits reserve	751	-	751
Foreign currency translation reserve	(831)	(4)	-
	(80)	(4)	751

Movements in reserves are set out in the Statement of Changes in Equity.

Equity benefits reserve
This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration and to the offtaker.

Foreign currency translation reserve
This reserve presents the foreign exchange gain/loss on the translation of the subsidiary from its functional currency (Malaysian Ringgit) to the presentation currency (AUD).

17. EARNINGS PER SHARE	CONSOLIDATED Year Ended 30 June 2007 $'000	16 December 2005 to 30 June 2006 $'000
Loss used in calculating basic earnings per share	(2,968)	(1,436)
	Number	Number
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	57,636,612	5,606,064
Effect of dilution:		
Performance rights	8,962,500	-
Share options (out of the money so not considered dilutive)	-	-
Weighted average number of ordinary shares on issue adjusted for the effect of dilution	66,599,112	5,606,064

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

Notes to the Financial Statements

	CONSOLIDATED 1 July 2006 to 30 June 2007 $'000	CONSOLIDATED 16 December 2005 to 30 June 2006 $'000	COMPANY 25 May 2006 to 30 June 2007 $'000
18. CASH FLOW STATEMENT			
a) Reconciliation of cash and cash equivalents			
Cash balances comprise:			
Cash at bank	524	5	15
Deposits at call	12,804	-	11,746
	13,328	5	11,761
b) Reconciliation of loss after income tax to the net cash used in operating activities			
Loss from ordinary activities after tax	(2,968)	(1,436)	(5,235)
Non-cash items:			
Depreciation and amortisation	39	5	1
Share-based payments	751	-	751
Impairment of investment in controlled entity	-	-	3,735
Unrealised foreign currency loss	-	-	416
Changes in assets and liabilities:			
Other current assets	(185)	-	-
Trade and other payables	342	-	282
Net cash used in operating activities	(2,021)	(1,431)	(50)

c) Non-cash financing and investing activities

Finance Lease Transactions

During the financial period, the Group acquired a motor vehicle with an aggregate fair value of $102,413 by means of a hire purchase agreement.

Notes to the Financial Statements

	CONSOLIDATED 30 June 2007 $'000	CONSOLIDATED 30 June 2006 $'000	COMPANY 30 June 2007 $'000
19. EXPENDITURE COMMITMENTS			
(a) Capital expenditure commitments			
Estimated capital expenditure contracted for at balance date, but not provided for or payable			
not later than one year:			
- Initial payment for leasehold land	178	-	-
- Property, plant and equipment	13	5,281	-
	191	5,281	-
(b) Operating leases (non-cancellable)			
Minimum lease payments			
- not later than one year	71	-	-
- later than one year but not later than five years	66	-	-
- later than five years	-	-	-
	137	-	-

The leases are for premises from which the Group operates and rental of office equipment.

(c) Finance leases

The Group has finance lease contracts for motor vehicles at 30 June 2007. These contracts have terms of renewal but no purchase terms or escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments at 30 June 2007 are as follows:

CONSOLIDATED	***Minimum Lease Payments*** *$'000*	***Present Value of Lease Payments*** *$'000*
Within one year	22	20
After one year but not more than five years	90	80
Total minimum lease payments	112	100
Less amounts representing future finance charges	(12)	-
Present value of minimum lease payments	100	100

Notes to the Financial Statements

20. SHARE-BASED PAYMENTS

(a) Directors'/employees' share options

The unlisted options detailed below have been granted to various directors and executives of the consolidated entity. The options granted are for no consideration and are exercisable at a fixed price after the vesting dates indicated in the table below. The options will lapse if not exercised by the exercise date. The options cannot be transferred and will not be quoted on the Australian Stock Exchange.

The following table sets out the number of (No) and weighted average exercise prices (WAEP) of and movements in share options issued during the period:

	No	WAEP $
Outstanding at the beginning of the period	-	-
Granted during the period	1,550,000	1.20
Forfeited during the period	-	-
Exercised during the period	-	-
Expired during the period	-	-
Outstanding at the end of the period	1,550,000	1.20
Exercisable at the end of the period	-	-

The outstanding balance at 30 June 2007 is represented by:

- 465,000 options over ordinary shares with an exercise price of $1.00 each, exercisable until 25 September 2009
- 620,000 options over ordinary shares with an exercise price of $1.20 each, exercisable until 25 September 2010
- 465,000 options over ordinary shares with an exercise price of $1.40 each, exercisable until 25 September 2011

The weighted average share price during the year was $0.56.
The weighted average remaining contractual life for the share options outstanding at 30 June 2007 is between 2.2 and 4.2 years.
The range of exercise prices for options outstanding at the end of the period was $1.00 to $1.40.

The weighted fair value of options granted during the period was $0.19.

Notes to the Financial Statements

20. SHARE-BASED PAYMENTS (continued)

(b) Directors'/employee's performance rights

The performance rights detailed below have been issued to a director of the Company and key employees under the performance rights plan:

	Number
Outstanding at the beginning of the period	-
Granted during the period	5,450,000
Forfeited during the period	-
Converted to shares on achievement of performance hurdles	-
Expired during the period	-
Outstanding at the end of the period	5,450,000

Each performance right gives the holder the right to one share on achievement of the performance hurdles noted below.

The outstanding balance at 30 June 2007 is represented by:

- 2,725,000 rights for shares to be issued if the Group achieves forecast net profit after tax ("NPAT") for the year ending 30 June 2008
- 2,725,000 rights for shares to be issued if the Group achieves forecast NPAT for the year ending 30 June 2009. Forecast NPAT for this period will be determined by the Board by 30 June 2008, though cannot be less than the forecast NPAT for the year ending 30 June 2008.

The fair value of the equity-settled share options and performance rights granted is estimated at the date of grant using a binomial model taking into account the terms and conditions upon which the options and performance rights were granted.

The following table lists the weighted average inputs to the model used for the period ended 30 June 2007:

	Options	Performance Rights
Dividend yield (%)	16%	14%
Expected volatility (%)	60%	60%
Risk-free interest rate (%)	5.69%	5.69%
Expected life of options/rights (years)	3.5	2.6
Option exercise price ($)	$1.20	n/a
Weighted average share price at grant date ($)	$1.00	$1.00

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

Notes to the Financial Statements

21. FAIR VALUE AND INTEREST RATE RISK

Fair value

All assets and liabilities recorded in the balance sheet, whether they are carried at cost or fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

Interest rate risk

The following tables set out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

At 30 June 2007	**Maturing**							**Weighted Average Effective Interest Rate**
CONSOLIDATED	**< 1 year $'000**	**>1 to <2 Years $'000**	**>2 to <3 Years $'000**	**>3 to <4 Years $'000**	**>4 to <5 Years $'000**	**>5 Years $'000**	**Total $'000**	**%**
Financial Assets								
Floating Rate								
Cash	524	-	-	-	-	-	524	-
Term deposits	5,838	-	-	-	-	-	5,838	5.5%
Commercial bills	6,966	-	-	-	-	-	6,966	6.3%
Weighted Average Effective Interest Rate	5.7%	n/a	n/a	n/a	n/a	n/a		
Financial Liabilities								
Fixed Rate								
Finance lease liability	20	21	21	21	17	-	100	2.3%
Weighted Average Effective Interest Rate	2.3%	2.3%	2.3%	2.3%	2.3%	n/a		

At 30 June 2006	**Maturing**							**Weighted Average Effective Interest Rate**
CONSOLIDATED	**< 1 year $'000**	**>1 to <2 Years $'000**	**>2 to <3 Years $'000**	**>3 to <4 Years $'000**	**>4 to <5 Years $'000**	**>5 Years $'000**	**Total $'000**	**%**
Financial Assets								
Floating Rate								
Cash	5	-	-	-	-	-	5	n/a
Weighted Average Effective Interest Rate	n/a	n/a	n/a	n/a	n/a	n/a		
Financial Liabilities	-	-	-	-	-	-	-	n/a

Notes to the Financial Statements

21. FAIR VALUE AND ITEREST RATE RISK (continued)

At 30 June 2007	**Maturing**							**Weighted Average Effective Interest Rate**
COMPANY	**< 1 year $'000**	**>1 to <2 Years $'000**	**>2 to <3 Years $'000**	**>3 to <4 Years $'000**	**>4 to <5 Years $'000**	**>5 Years $'000**	**Total $'000**	**%**
Financial Assets								
Floating Rate								
Cash	15	-	-	-	-	-	15	-
Term deposits	4,780	-	-	-	-	-	4,780	6.1%
Commercial bills	6,966	-	-	-	-	-	6,966	6.3%
Weighted Average Effective Interest Rate	6.2%	n/a	n/a	n/a	n/a	n/a		
Financial Liabilities	-	-	-	-	-	-	-	n/a

22. REVERSE ACQUISITION

On 31 May 2006, Sterling effectively acquired all the issued capital of SPC Biodiesel. Sterling issued 30 million ordinary shares in return for 100% of the share capital of SPC Biodiesel. SPC Biodiesel was identified as the acquirer in relation to the combination. Accordingly, the combination has been accounted for as a reverse acquisition. However Sterling did not trade prior to the transaction and accordingly is not considered to constitute a business.

Notes to the Financial Statements

	CONSOLIDATED 30 June 2007 $	CONSOLIDATED 30 June 2006 $	COMPANY 30 June 2007 $
23. AUDITORS' REMUNERATION			
The auditor of Sterling Biofuels International Limited is Ernst & Young.			
a) *Amounts received or due and receivable by Ernst & Young (Australia) for:*			
- an audit or review of the financial report of the entity	42,360	-	42,360
- independent accountant's report in relation to a capital raising	85,397	-	85,397
- tax compliance	11,506	-	11,506
b) *Amounts received or due and receivable by internationally affiliated practices of Ernst & Young (Australia) for:*			
- an audit or review of the financial report of the entity	6,446	-	-
- tax compliance	-	-	-
c) *Amounts received or due and receivable by non-Ernst & Young audit firms for:*			
- an audit or review of the financial report of the entity	7,520	729	-
- tax compliance	3,939	-	-
	157,168	729	139,263

The auditors received no other benefits.

Notes to the Financial Statements

24. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

Directors

A T Maitland	Chairman
CRS Paragash	Group Managing Director
Andrew Phang	Group Executive Director
Shariffuddin Khalid	Director
A Sierakowski	Director

Executives

T Walsh	Company Secretary and Chief Financial Officer
M K Thorley	Chief Operating Officer
I A Hamid	Head, Feedstock and Logistics
J Leong	Head, Corporate Finance
C Menon	Commercial Manager

There were no changes to key management personnel between the reporting date and the date the financial report was authorised for issue.

(b) Compensation of Key Management Personnel

Remuneration by category

	CONSOLIDATED		COMPANY
	1 July 2006 to 30 June 2007 $	16 December 2005 to 30 June 2006 $	25 May 2006 to 30 June 2007 $
Key Management Personnel			
Short-term benefits	1,335,902	169,207	626,092
Post-employment benefits	81,804	-	45,548
Share-based payments	445,847	-	445,847
	1,863,553	169,207	1,117,487

The Company has applied the exemption under Corporations Amendments Regulation 2006 to transfer key management personnel remuneration disclosures required by Accounting Standard AASB 124 *Related Party Disclosures* paragraphs Aus 25.4 to Aus 25.7.2 to Remuneration Report section of the Directors' Report. These transferred disclosures have been audited.

Notes to the Financial Statements

24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(c) Option holdings of Key Management Personnel

Key Management Personnel	Held at 1 July 2006	Granted as remuneration	Exercised	Net change other	Held at 30 June 2007	Vested at 30 June 2007		
						Total	Exercised	Not exercised
Directors								
A T Maitland	-	500,000	-	-	500,000	-	-	-
CRS Paragash	-	-	-	-		-	-	-
Andrew Phang	-	-	-	-		-	-	-
Shariffuddin Khalid	-	400,000	-	-	400,000	-	-	-
A Sierakowski	-	400,000	-	-	400,000	-	-	-
Executives								
T Walsh	-	250,000	-	-	250,000	-	-	-
M K Thorley	-	-	-	-	-	-	-	-
I A Hamid	-	-	-	-	-	-	-	-
J Leong	-	-	-	-	-	-	-	-
C Menon	-	-	-	-	-	-	-	-
Total	-	1,550,000	-	-	1,550,000	-	-	-

No options were issued during the period from incorporation to 30 June 2006.

(d) Performance rights holdings of Key Management Personnel

Key Management Personnel	Held at 1 July 2006	Granted as remuneration	Performance hurdles achieved and shares issued	Held at 30 June 2007
Directors				
A T Maitland	-	-	-	-
CRS Paragash	-	-	-	-
Andrew Phang	-	-	-	-
Shariffuddin Khalid	-	550,000	-	550,000
A Sierakowski	-	-	-	-
Executives				
T Walsh	-	-	-	-
M K Thorley	-	1,000,000	-	1,000,000
I A Hamid	-	1,000,000	-	1,000,000
J Leong	-	550,000	-	550,000
C Menon	-	-	-	-
Total	-	3,100,000	-	3,100,000

No performance rights were issued during the period from incorporation to 30 June 2006.

Notes to the Financial Statements

24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(e) Share holdings of key management personnel

	Fully Paid Ordinary Shares				
	Held at 1 July 2006	**Granted as remuneration**	**On exercise of options**	**Net change other**	**Held at 30 June 2007**
Directors					
A T Maitland	-	-	-	50,000	50,000
CRS Paragash	1	-	-	(1)	30,000,000*
Andrew Phang	1	-	-	(1)	30,000,000*
Shariffuddin Khalid	-	-	-	-	-
A Sierakowski	-	-	-	-	-
Executives					
T Walsh	1	-	-	(1)	-
M K Thorley	-	-	-	-	-
I A Hamid	-	-	-	-	-
J Leong	-	-	-	-	-
C Menon	-	-	-	-	-

* Held indirectly via Duplex Fame Sdn Bhd.

	Fully Paid Ordinary Shares				
	Held at 16 December 2005	**Granted as remuneration**	**On exercise of options**	**Net change other**	**Held at 30 June 2006**
Directors					
A T Maitland	-	-	-	-	-
CRS Paragash		-	-	1	1
Andrew Phang		-	-	1	1
Shariffuddin Khalid	-	-	-	-	-
A Sierakowski	-	-	-	-	-
Executives					
T Walsh	-	-	-	1	1
M K Thorley	-	-	-	-	-
I A Hamid	-	-	-	-	-
J Leong	-	-	-	-	-
C Menon	-	-	-	-	-

All equity transactions with key management personnel, other than those arising from the exercise of remuneration options, have been entered into under terms and conditions no more favourable that those the Group would have adopted if dealing at arm's length.

(e) Loans to key management personnel

There were no loans to key management personnel during the period.

(f) Other transactions and balances with key management personnel

There were no transactions or balances with key personnel other than those disclosed in the remuneration report of the Directors' Report.

Notes to the Financial Statements

RELATED PARTY DISCLOSURES

Transactions with wholly-controlled entities:

i) Loans to wholly-controlled entities are interest free and unsecured and have no fixed repayment terms.
ii) Interests in wholly-controlled entities are disclosed in note 12.

Details relating to key management personnel are disclosed in note 24.

25. COMMITMENTS AND CONTINGENCIES

Feedstock supply agreement
Lahad Datu Edible Oils Sdn Bhd has agreed to supply the Group between 6,000 to 9,000 tonnes of RBD palm olein per month for a period of three years with an option to extend the contract by a further three years. The purchase price is based on the price of RBD palm olein reported by the Malaysian Palm Oil Board for the month of purchase. Since the period end, the feedstock contract has been varied and a minimum of 2,000 tonnes and a maximum of 4,000 tonnes will now be supplied each month.

Offtake agreement
The offtaker, Masefield AG, has agreed to purchase 100,000 tonnes of biodiesel per annum for 3 years, commencing on the date of commencement of the operation of the Group's biodiesel plant. The agreement can be extended for a further two years by mutual agreement of both parties.

Notes to the Financial Statements

26. COMMITMENTS AND CONTINGENCIES (continued)

Performance rights granted to offtaker

Each performance right gives the holder the right to one share on achievement of the performance hurdles noted below:

Performance condition	***Number of performance rights***
The Group achieves forecast net profit after tax ("NPAT") for the year ending 30 June 2008 of A$24.621 million	1,000,000
The Group achieves 120% of forecast revenue for the year ending 30 June 2008	1,000,000
The Group achieves forecast NPAT for the year ending 30 June 2009. Forecast NPAT for this period will be determined by the Board by 30 June 2008, though cannot be less than the forecast NPAT for the year ending 30 June 2008.	1,000,000
The Group achieves 120% of forecast revenue for the year ending 30 June 2009. Forecast revenue for this period will be determined by the Board by 30 June 2008, though cannot be less than the forecast revenue for the year ending 30 June 2008.	1,000,000
The Group achieves forecast NPAT for the year ending 30 June 2010. Forecast NPAT for this period will be determined by the Board by 30 June 2009, though cannot be less than the forecast NPAT for the year ending 30 June 2008.	1,000,000
The Group achieves 120% of forecast revenue for the year ending 30 June 2010. Forecast revenue for this period will be determined by the Board by 30 June 2009, though cannot be less than the forecast revenue for the year ending 30 June 2008.	1,000,000
	6,000,000

Refer to note 20 for details of the fair value of performance rights issued during the period. The fair value of performance rights referred to above were calculated on the same basis as performance rights granted to directors and employees.

26. EVENT AFTER THE BALANCE SHEET DATE

On 13 September 2007, the Company announced that it had, through a newly incorporated, wholly owned Malaysian company, acquired 70% of the issued share capital of UTE Power Sdn Bhd, a Malaysian company, which has been granted the right to develop 10,600 acres of land into an oil palm plantation for a period of 60 years with an option to renew for another 30 years. Under the terms of the acquisition, the Group will make a nominal up front payment for its stake in UTE Power Sdn Bhd and will take on the responsibility for funding the development of the oil palm plantation. The cost of development is estimated at A$14.9 million spread over 5 years.

As at the date of the report no other matter or circumstance has arisen that has significantly affected, or may significantly affect, the operations of Sterling Biofuels International Limited and its controlled entity, the results of those operations or the state of affairs of Sterling Biofuels International Limited and its controlled entity in subsequent years that is not otherwise disclosed in this report or the consolidated financial statements.

Directors' Declaration

In accordance with a resolution of the directors of Sterling Biofuels International Limited, I state that:

1) In the opinion of the directors:

   a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

      i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2007 and of their performance for the period ended on that date; and

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

   b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ended 30 June 2007.

On behalf of the Board:

CRS Paragash
Group Managing Director

Perth, 17 September 2007

■ The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

GPO Box M939
Perth WA 6843

■ Tel 61 8 9429 2222
Fax 61 8 9429 2436

Auditor's Independence Declaration to the Directors of Sterling Biofuels International Limited

In relation to our audit of the financial report of Sterling Biofuels International Limited for the financial period ended 30 June 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

P McIver
Partner
Perth
17 September 2007

PMI:KT:STERLING:013

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Perth WA 6843

Tel 61 8 9429 2222
Fax 61 8 9429 2436

Independent auditor's report to the members of Sterling Biofuels International Limited

We have audited the accompanying financial report of Sterling Biofuels International Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the period ended on that date, a summary of significant accounting policies, other explanatory notes 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 period.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 10 to 16 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

Directors' Responsibility for the Financial Report
The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2 (b), the directors also state that the financial report, comprising the financial statements and notes comply with International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence
In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion
In our opinion:

1. the financial report of Sterling Biofuels International Limited is in accordance with the Corporations Act 2001, including:
   (i) giving a true and fair view of the financial position of Sterling Biofuels International Limited and the consolidated entity at 30 June 2007 and of their performance for the period ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2 (b).

3. the remuneration disclosures that are contained on pages 10 to 16 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.

Ernst + Young

Ernst & Young

P McIver

P McIver
Partner
Perth
17 September 2007