

26 February 2007

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

APPENDIX 4D AND HALF YEAR REPORT

Please find attached Sterling Biofuels International Limited's Appendix 4D and Half Year Financial Report for the half year ended 31 December 2006.

The Half Year Financial Report, together with photos of Sterling's biodiesel plant under development, are available on its website: www.sterlingbiofuels.com .

Yours sincerely

A handwritten signature in black ink that reads "Anthony Walsh".

Tony Walsh
Company Secretary
Sterling Biofuels International Limited Company.

Appendix 4D

Half yearly report

Name of entity

Sterling Biofuels International Ltd

ABN or equivalent company
reference

Half year ended
(current period)

Half year ended
(‘previous period’)

ACN 119 880 492

31 December 2006

Not applicable

Results for announcement to the market

Extracts from this report for announcement to the market (see note 1).

\$A'000

Revenues from ordinary activities	up/down	N/A%	to	443
Profit (loss) from ordinary activities after tax attributable to members	up/down	N/A%	to	(1,600)
Net profit (loss) for the period attributable to members	up/down	N/A%	to	(1,600)
Dividends (distributions)		Amount per security		Franked amount per security
Interim dividend declared		Nil		Nil
Previous corresponding period		Nil		Nil
<p>+Record date for determining entitlements to the dividend, Not applicable</p> <p>Brief explanation of any of the figures reported above to enable figures to be understood:</p> <p>The Company’s wholly-owned subsidiary SPC Biodiesel Sdn Bhd is currently constructing its 100,000 MT per annum biodiesel plant in Lahad Datu, Sabah, Malaysia. Construction of the biodiesel plant is progressing as scheduled and is expected to commence operations by 1 July 2007.</p> <p>The Company’s revenue for the half year ended 31 December 2006 were interest income earned from deposits placed with financial institutions in Australia. The operating losses incurred by the Company are as a result of payroll and other operating expenses incurred by both Sterling Biofuels’ subsidiary in Malaysia (i.e. SPC Biodiesel) and its parent company in Australia.</p>				

This half yearly report is to be read in conjunction with the most recent annual financial report.

NTA backing

	Current period	Previous corresponding Period
Net tangible asset backing per ⁺ ordinary security	\$0.46	N/A

+ See chapter 19 for defined terms.

Control gained over entities having material effect

13.1 Name of entity (or group of entities)	Not applicable
13.2 Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) since the date in the current period on which control was ⁺ acquired	\$
13.3 Date from which such profit has been calculated	
13.4 Profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period	\$

Loss of control of entities having material effect

14.1 Name of entity (or group of entities)	Not applicable
14.2 Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the current period to the date of loss of control	\$
14.3 Date to which the profit (loss) in item 14.2 has been calculated	
14.4 Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) while controlled during the whole of the previous corresponding period	\$
14.5 Contribution to consolidated profit (loss) from ordinary activities and extraordinary items from sale of interest leading to loss of control	\$

This report is based on the ⁺accounts have been subject to review

Anthony Walsh

Sign here: Date: 26 February 2007
(Company Secretary)

Print name: Tony Walsh

⁺ See chapter 19 for defined terms.



Sterling Biofuels International Limited
ACN 119 880 492

Half Year Report 31 December 2006

Sterling Biofuels International Limited
ACN 119 880 492

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Sterling Biofuels International Limited
ACN 119 880 492

Corporate Directory

DIRECTORS

Alistair Maitland (Chairman)
CRS Paragash (Managing Director)
Andrew Phang (Executive Director)
Adam Sierakowski (Non-Executive Director)
Shariffuddin Khalid (Non-Executive Director)

Solicitors

Freehills
QV.1 Building
250 St Georges Terrace
Perth WA 6000
Australia

COMPANY SECRETARY

Tony Walsh

AUDITORS

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia

**REGISTERED OFFICE OF STERLING
BIOFUELS**

Ground Floor, 16 Ord Street
West Perth WA 6005
Australia

Bankers

Westpac
Level 1, 1257 Hay Street
West Perth WA 6000
Australia

Stock Exchange Listing

Australian Stock Exchange
ASX Code: SBI

Share Registry

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

WEBSITE

www.sterlingbiofuels.com

Sterling Biofuels International Limited
ACN 119 880 492

Managing Director's Report

I am pleased to present the inaugural half year report for the Sterling Biofuels International Limited Group.

The six months ended 31 December 2006 has been an eventful time for us. Our efforts during this period have been largely directed at ensuring that the funds raised from our initial public offering on the Australian Stock Exchange are properly applied for the purpose represented in our prospectus. In this regard, we are making progress on achieving our main goal which is to undertake a profitable business activity making high quality biodiesel in an efficient manner.

In the main, the following factors will influence the outcome of our biodiesel venture:

- The supply of our preferred feedstock, refined palm olein, and its purchase price
- The demand for and selling price of biodiesel in our target markets.
- The construction of our plant in Lahad Datu, Sabah in time to commence operations by 1 July 2007.

The supply of feedstock is critical to our operations. That is why we have located the plant in the hub of palm oil country in Sabah. In addition, we have secured supply of feedstock for the first 3 years of operations through a supply contract with an established palm oil refiner. Despite the recent volatility in palm oil prices, palm biodiesel continues to enjoy a substantial margin advantage over rape and soy biodiesel.

Biodiesel prices have remained relatively constant notwithstanding the significant drop in crude oil prices over the last 6 months. This confirms the continuing "disconnect" between crude oil prices and biodiesel prices. The increased mandatory blending in the key German market which took effect on 1 January 2007 and increasing political support for the promotion of biofuels in the potentially large American market are positive developments for the industry.

The third factor influencing the outcome of our venture – the construction of the plant - is within our control and we have made significant progress. Clearly, having a plant in operation as quickly as possible would be advantageous as it would enable us to establish ourselves as a player in a rapidly developing industry and close in on business opportunities that present themselves.

Starting with a barren piece of land in Sept 2006, the project site for our proposed biodiesel plant has quickly been transformed into a hive of activity. Professionally managed by SMEC Sdn Bhd (our project managers), both Desmet Ballestra (the technology supplier) and Ikatan Innovasi (the balance of plant contractor) have made inroads into their respective assignments. At the Lahad Datu project site, workers have been busy excavating, piling and laying the foundations for the biodiesel (methyl ester) plant and the tank farm. Running parallel with this, various pressure vessels (reactors/ separators) have been constructed at the factory to be shipped out to the site at the appropriate time.

At the same time, POIC (the state-owned developer of the industrial park that the project site is located in) are in the process of readying key parts of the infrastructure – roads, drainage and other facilities.

At this stage, we are on track with the construction schedule. Importantly, heavy rains typically brought on by the annual monsoon which could have affected this schedule look to have passed with minimal impact.

Acknowledgements

I take this opportunity to thank all who have contributed to our initial public offering exercise on the Australian Stock Exchange. This raised the funds required to complete and take our biodiesel venture through construction and its first year of operations.

On behalf of the Board of Directors and management, I thank you for the confidence you have shown in us by investing in Sterling Biofuels and look forward to the challenges ahead.

Yours sincerely



CRS PARAGASH
Managing Director

Sterling Biofuels International Limited
ACN 119 880 492

Directors' Report

The Directors present their report for the half year ended 31 December 2006.

Directors

The names of the company's directors in office during the half-year and until the date of this report are as below. All directors were in office for this entire period.

Alister Maitland (Chairman)
CRS Paragash (Managing Director)
Andrew Phang (Executive Director)
Adam Sierakowski (Non-Executive Director)
Shariffuddin Khalid (Non-Executive Director)

Principal Activities

The principal activity of the Group during the period was the commencement of construction of a 100,000 tonne per annum Biodiesel plant in Lahad Datu, Sabah, Malaysia.

Review and Results of Operations

The construction phase of the 100,000 tonne per annum biodiesel plant in Lahad Datu, Sabah is ongoing and progressing as planned. The biodiesel plant is expected to commence operations by 1 July 2007.

The consolidated loss after income tax for the half-year was \$1,600,000. This represents the net operating expenses before commencement of plant operations.

Sterling Biofuels International Limited
ACN 119 880 492

Auditor's Independence Declaration

We have obtained the auditor's independence declaration from Ernst & Young, which is set out on page 8.

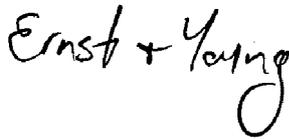
Signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to be 'CRS', with a long horizontal flourish extending to the right.

CRS PARAGASH
Managing Director
Perth 26 February 2007

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

In relation to our review of the financial report of Sterling Biofuels International Ltd for the half-year ended 31 December 2006, 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



P McIver
Partner
Perth
26 February 2007

Sterling Biofuels International Limited
ACN 119 880 492

Condensed Consolidated Income Statement
For the Half Year Ended 31 December 2006

	Note	31 December 2006 A\$'000
Continuing operations		
Revenue		
Finance Revenue		443
Employee expenses		(1,186)
Other expenses		(857)
		<hr/>
Loss from continuing operations before tax		(1,600)
Income Tax Expense	3	<hr/> -
Loss from continuing operations after income tax		(1,600)
		<hr/>
Net Loss attributable to members of Sterling Biofuels		(1,600)
		<hr/>
Loss per share (cents per share)		
- basic loss per share (cents per share)		(0.058)
- diluted loss per share (cents per share)		(0.058)

Sterling Biofuels International Limited
ACN 119 880 492

Condensed Consolidated Balance Sheet
As at 31 December 2006

	Note	As at 31 December 2006 A\$'000	As at 25 May 2006 A\$'000
CURRENT ASSETS			
Cash and cash equivalents	4	27,209	18
Other receivables		224	10
Total current assets		27,433	28
NON-CURRENT ASSETS			
Property, Plant and Equipment	6	4,096	19
Total non-current assets		4,096	19
TOTAL ASSETS		31,529	47
CURRENT LIABILITIES			
Trade and Other Payables		1,521	851
Total current liabilities		1,521	851
NET ASSETS		30,008	(804)
EQUITY			
Contributed Equity	7	32,146	473
Reserves		711	(28)
Accumulated Losses		(2,849)	(1,249)
TOTAL EQUITY		30,008	(804)

Sterling Biofuels International Limited
ACN 119 880 492

Condensed Consolidated Statement of Changes in Equity
For the Half Year Ended 31 December 2006

	Ordinary Shares	Share based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
At 25 May 2006	473	-	(28)	(1,249)	(804)
Foreign currency translation	-	-	(93)	-	(93)
Income and expense for the period recognized directly in equity	-	-	(93)	-	(93)
Loss for the period	-	-	-	(1,600)	(1,600)
Total income and expense for the period		-	(93)	(1,600)	(1,693)
Shares Issued	35,000	-	-	-	35,000
Transaction costs on share issue	(3,327)	-	-	-	(3,327)
Share-based payment	-	832	-	-	832
At 31 December 2006	32,146	832	(121)	(2,849)	30,008

Sterling Biofuels International Limited
ACN 119 880 492

Condensed Consolidated Cash Flow Statement
For the Half Year Ended 31 December 2006

	31 December 2006
	A\$'000
Cash flows from operating activities	
Finance revenue received	443
Payments to suppliers and employees	<u>(942)</u>
Net cash flows used in operating activities	<u>(499)</u>
Cash flows from investing activities	
Purchase of property, plant and equipment	<u>(3,675)</u>
Net cash flows used in investing activities	<u>(3,675)</u>
Cash flows from financing activities	
Proceeds from issue of shares	35,000
Transaction costs on share issue	(3,327)
Other cash flows used in financing activities	<u>(215)</u>
Net cash flows from financing activities	<u>31,458</u>
Net increase/(decrease) in cash held	27,284
Cash at beginning of period	18
Exchange rate adjustments	<u>(93)</u>
Cash and cash equivalents at end of period	<u><u>27,209</u></u>

Sterling Biofuels International Limited
ACN 119 880 492

Notes to Condensed Consolidated Financial Statements
For the Half Year Ended 31 December 2006

1. CORPORATE INFORMATION

The financial report of Sterling Biofuels International Limited (“Sterling Biofuels ” or “the Company”) and its subsidiary, SPC Biodiesel Sdn Bhd (“SPC Biodiesel”) (“the Group”) for the half year ended 31 December 2006 was authorised for issue by the Directors on 26 February 2007. Sterling Biofuels is a company incorporated in Australia and is listed on the Australian Stock Exchange.

The Company was incorporated on 25 May 2006 and this period represents the first half-year period for the Company (see Note 12).

The nature of the operations and principal activities of Sterling Biofuels and its subsidiary are described in the Directors’ Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year report be considered together with the Prospectus dated 11 August 2006 and any public announcements made by Sterling Biofuels during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(a) Basis of preparation

The half-year consolidated financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Accounting Standards, including AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements. The half-year financial report has 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 Order 98/0100. The Company is an entity to which the class order applies.

(b) Change in accounting policies

The accounting policies are consistent with the Prospectus dated 11 August 2006.

(c) Comparatives

Sterling Biofuels' acquisition of all of the issued capital of SPC Biodiesel has been accounted for as a reverse acquisition in accordance with the requirements of AASB 3 *Business Combinations*.

SPC Biodiesel, being the parent for purposes of the reverse acquisition, was incorporated on 16 December 2005 and was inactive for the 2 weeks to 31 December 2005. As such the prior period comparative information for the income statement, statement of changes in equity and cash flow statement is immaterial.

Sterling Biofuels was incorporated on 25 May 2006 and became a disclosing entity on 11 August 2006. The consolidated accounts have been prepared for the period from 25 May to 31 December 2006.

3. INCOME TAX

SPC Biodiesel, the subsidiary of Sterling Biofuels has been granted pioneer tax status in Malaysia which will exempt 100% of its operating income from taxation in Malaysia for a period of 5 years commencing from the date of commercial operations.

Dividends received by Sterling Biofuels from SPC Biodiesel will be exempted from Australian income tax.

For the half-year ended 31 December 2006, the Group has not incurred any income tax expense.

4. CASH AND CASH EQUIVALENTS

For the purpose of the half-year condensed consolidated cash flow statement, cash and cash equivalents comprise the following: -

	Consolidated 31 December 2006	Consolidated 25 May 2006
	A\$'000	A\$'000
Cash on hand and at bank	410	18
Deposits at call	26,799	-
Total Cash and Cash Equivalents	<u>27,209</u>	<u>18</u>

5. DIVIDENDS PAID AND PROPOSED

The Company did not declare a dividend during the half-year ended 31 December 2006.

6. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and Disposals

	Consolidated 31 December 2006
	A\$'000
Balance as at 25 May 2006	19
Additions during the 7 month period	<u>4,077</u>
Balance as at 31 December 2006	<u>4,096</u>

7. CONTRIBUTED EQUITY

Ordinary Shares

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

Movements in ordinary shares on issue

	No. of Ordinary Shares	A\$'000
At 25 May 2006	4	473
Issued for the reverse acquisition of Sterling Biofuels	29,999,996	-
Issued on 15 September 2006 for cash pursuant to offer to public	35,000,000	35,000
Transaction costs on share issue	-	(3,327)
	<u>65,000,000</u>	<u>32,146</u>

8. SHARE-BASED PAYMENT PLANS

On 15 September 2006, 1,550,000 share options were granted to Directors and Company Secretary/Chief Financial Officer with exercise prices ranging from \$1.00 to \$1.40. The options will become exercisable between 20 September 2007 to 20 September 2011. Options issued to Directors and Company Secretary/Chief Financial Officer have been valued using an option pricing model and based on offer price of \$1.00.

On 15 September 2006, 11,450,000 Performance Rights were issued to key employees and offtaker. The Performance Rights have been valued using an option pricing model and based on offer price of \$1.00.

9. 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, that being the construction and subsequent operations of biodiesel plant.

10. SUBSEQUENT EVENTS

There were no matter that have arisen since the interval between 31 December 2006 and the date of this financial report nor any item, transaction or event of a matter or unusual nature that is likely, in the opinion of the Directors of the Company, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity, in future years.

11. COMMITMENTS AND CONTINGENCIES

There were no contingent liabilities outstanding as at 31 December 2006.

Material capital commitments and other expenditure commitments contracted for as at the date of this half-year report amounts to \$14,711,000. These capital commitments are required to fund the completion of the construction of the Group's 100,000 tonne per annum Biodiesel plant.

12. RELIEF PROVIDED BY ASIC ORDER

The Company had applied to ASIC for relief, and was granted relief, from the obligation to lodge its half year financial report in respect of the period 25 May 2006 to 2 December 2006 under subsection 323D(5) of the Act subject to it preparing and lodging a half yearly financial report for the period from 25 May 2006 to 31 December 2006.

The Company sought ASIC relief from the obligation to lodge its half year financial report in respect of the period 25 May 2006 to 2 December 2006 under subsection 323D(5) of the Act on the following grounds:

- The Company was inactive from incorporation until the acquisition of its now 100% subsidiary, SPC Biodiesel (incorporated in Malaysia), at the end of July 2006
- The Company was operationally inactive until the time of its listing on ASX on 25 September 2006
- The Company is already in the final stages of preparation and audit review of its half year accounts for the period 25 May 2006 to 31 December 2006

- The Company has already prepared and lodged for release to ASX quarterly financial information for the quarters ended 30 September 2006 and 31 December 2006. The market or other potential users of the financial statements would normally be expecting half yearly accounts that end on 31 December 2006
- If the Company was required to lodge half yearly accounts to 2 December 2006, under accounting standards, to provide realistic comparatives against the 31 December 2007 half yearly accounts, it is arguable that the Company would have to prepare a separate set of accounts for the period ended 31 December 2006.
- The grant of relief will ensure the market is fully informed on the Company's financial performance for the period 25 May 2006 to 31 December 2006 and financial position at 31 December 2006. This more up to date information will also ensure future half yearly reports are more easily comparable.

Sterling Biofuels International Limited
ACN 119 880 492

Directors' Declaration

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

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act, 2001*, including:
 - (i) give a true and fair view of the financial position as at 31 December 2006 and the performance for the half-year ended on that date of the Group; and
 - (ii) comply with Accounting Standard AASB 134 *Interim Financial Reporting* 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.

On behalf of the Board of Directors



CRS PARAGASH
Managing Director
26 February 2007

Independent auditor's review report to members of Sterling

We have reviewed the accompanying half-year financial report of Sterling Biofuels International Ltd, which comprises the condensed consolidated balance sheet as at 31 December 2006, and the condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the company's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory financial reporting requirements in Australia. As the auditor of Sterling, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

This report is made solely to the company's members, as a body, in accordance with the Corporations Act 2001. Our review work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our review work, for this report, or for the opinions we have formed.

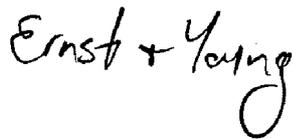
Independence

In conducting our review, we have complied with 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Sterling Biofuels International Ltd is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



P McIver
Partner
Perth
26 February 2007