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ASX ANNOUNCEMENT

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## **STERLING BIOFUELS EXTENDS UPSTREAM PARTICIPATION WITHIN PALM OIL/BIODIESEL VALUE CHAIN**

### **DEVELOPMENT OF PALM OIL MILL**

Sterling Biofuels International Limited is pleased to announce that it has entered into a Memorandum of Understanding to develop a palm oil mill in the Lahad Datu region where its biodiesel plant is located.

The development of the mill will be undertaken jointly with a local partner who will provide access to minimum quantities of raw material (ie oil palm fruit bunches) for the mill. This is required for the purposes of obtaining a mill licence.

Sterling, which will own 70% of the joint venture, will manage the construction and subsequent operations of the mill. During the initial phase, the mill's capacity will be 45 tonnes per hour but this will increase to 90 tonnes per hour after the second phase. When completed, the mill will have the capacity to supply 100% of our crude palm oil (CPO) which can be refined for use in the biodiesel plant.

Due to Sterling's management team's extensive palm oil industry experience and the fact that the technology for a palm oil mill is well established, the Company is confident of establishing a successful milling operation by 1 January 2010 (within 24-30 months, ie time taken to construct and ready the new mill for commercial operation).

Group Managing Director, CRS Paragash, said "The development of the palm oil mill represents an extension of Sterling's participation in upstream activities within the palm oil/biodiesel value chain. This initiative, when fully operational, will contribute towards security of feedstock supply for the biodiesel plant as well as result in total potential savings of up to RM180 (A\$62) a tonne compared to our current feedstock costs."

The cost of developing the mill is expected to be funded through equity contributions from the joint venture partners as well as non-recourse debt. Sterling's 70% share of the equity contribution is estimated at \$2.8 million (see table below). This is expected to be funded from Sterling's existing cash balances.

<b>Funding requirements</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>Total</b>
<b>A\$'000</b>	166	1,167	1,467	2,800



The time frames associated with the development of this palm oil mill have been designed to complement the development time frames associated with the recently announced oil palm plantation development. The 24-30 month development timeframe for the mill fits in very well with the 5-6 year development program for the oil palm plantation.

This initiative once again demonstrates the ability of Sterling to leverage on the vast experience and expertise of its management team within the palm oil industry for the benefit of its biodiesel business. That experience and expertise is a key success factor in Sterling's business model as a palm based biodiesel producer and will enable it to successfully execute its upstream activities in the palm oil/biodiesel value chain.

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