

SECOND ANNUAL GENERAL MEETING

GROUP MANAGING DIRECTOR'S PRESENTATION

Introduction

Thank you Mr Chairman. Good morning ladies & gentlemen.

Welcome to our second Annual General Meeting.

Recap of Key Market Drivers

When we met last November our feedstock prices based on the price of crude palm oil (CPO) were in the midst of an unprecedented rally. From a historical average of RM1,500 a tonne (excluding the recent rally), the price of CPO rose to around RM3,000 a tonne at the time of our last AGM in November. The rally continued into the first half of this year with CPO prices peaking at nearly RM4,500 a tonne. Almost a 300% increase from historical averages!

Crude Palm Oil Prices

I said at our AGM last November that what goes up must eventually come down albeit it has taken a slightly longer time.

Today CPO prices are hovering around the RM1,600 tonne mark. This is some 65% (or RM2,900) down from its peak this year.

The fall in feedstock prices is good news. Other things being equal, the lower the price of feedstock, the better the economic viability of our biodiesel business.

Unfortunately, the recent weakening of palm biodiesel prices complicates this equation.

Palm Biodiesel Prices

During the last 18 months, the price of palm biodiesel has seen a steady increase from the US\$800 FOB a tonne range to a high of US\$1,240 a tonne in May – June of this year, before declining to the US\$500-550 a tonne range.

The fall in palm biodiesel prices has reduced our margins substantially even with the recent drop in feedstock prices.

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When we started this business, we chose to use palm oil as feedstock because, among other factors, it was and remains the cheapest commercially viable feedstock available. Lately, price trends for palm oil appears to benchmark crude oil price trends ever since palm oil was incorporated as a feedstock for biodiesel.

Challenges on the Horizon

Currently, RBD palm oil is generally about US\$400-450 a tonne cheaper than crude rapeseed oil and US\$275-325 a tonne cheaper than crude soybean oil.

The lower palm feedstock cost should theoretically result in palm biodiesel enjoying better margins even after discounting for inferior cold flow properties.

Unfortunately, this is currently not the case. Prices offered for palm biodiesel today remain at a steep discount to its rape and soy equivalents.

As palm oil feedstock prices fall, so do palm biodiesel prices. We no longer see the sort of margins that palm biodiesel producers were projecting two years ago. I believe this situation will not easily reverse itself as more palm biodiesel producers come onstream.

In addition to declining margins, we must be prepared to deal with the growing focus on sustainability issues in our major markets. I am pleased to state that the Company is committed towards sustainability principles being developed within the industry.

While current EU proposals seek to increase the EU's commitment towards renewables, the solutions that have been proposed by the EU to deal with these sustainability issues appear to work subtly against palm biodiesel producers. This is a concern that the Malaysian government is addressing on a G-to-G level.

Of late, the global economic slowdown has had a dampening impact on the demand for all commodities. The biodiesel industry has not been spared. Demand for biodiesel is not as robust and buyers appear to be a lot more cautious.

Some Positive Developments

On a brighter note, the general outlook for the biodiesel industry continues to look good. The major EU market continues to be committed towards renewables as a readily available means of tackling the climate change problem, no doubt with a growing emphasis on sustainability issues.

Likewise, in the United States, I believe the biofuels agenda will remain high on the list of priorities of the just elected administration in the United States.

Recently, the US Senate and House of Representatives voted in favour of a bill that will end the “splash & dash” trade. This is biodiesel shipped through the US into Europe in order to benefit from a US\$300 a tonne subsidy offered by the United States government. Over the last year, such exports out of the US have flooded the EU market and put unfair pressure on biodiesel prices.

In Malaysia, we are represented on the Executive Committee of the Malaysian Biodiesel Association which has been involved in discussions with the Malaysian government on the introduction of a 5% mandatory biodiesel blend. The mandatory blend will be implemented in phases commencing with government vehicles in February 2009 and followed by the industrial and transport sectors.

Mobilisation of Biodiesel Plant

Against this backdrop and notwithstanding the weakening in palm biodiesel prices, I am pleased to announce that we have remobilized our biodiesel plant for production. We have successfully produced a limited quantity of biodiesel to the required specifications and are currently building up our stocks. Continuous production going forward will however depend on biodiesel prices improving so as to give us margins.

Upstream Strategy

At our last AGM I also said that we needed to position ourselves to take advantage of shifts in the oil palm – biodiesel value chain. During the last year, as palm oil prices continued to rise and margins in the biodiesel sector began to erode (and then disappear altogether), I became more convinced that this was the right strategy for our company.

Today we are well into the development of our upstream business which will eventually position us to tap the best margins in this value chain wherever they may be.

Plantation Development

As a company that is able to produce its own oil palm fruit, we will be in a position to mitigate some of the uncertainty that currently plagues our business.

The plantation development is progressing well with key project milestones on schedule.

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Project Milestones

Phase 1 of our plantation development is progressing on schedule and we are now moving from the nursery stage to planting out. Phase 1 will eventually encompass an area of 1,200 hectares out of a total of 4,000 hectares.

[See Field Progress Photos]

In fact, last Sunday we had our first planting out into the ground.

Phased Development Schedule

Subject to finalising funding requirements for 2009, the plantation is expected to produce its first harvests in FY2012 and, when fully mature by FY2013, it will be capable of delivering 20% of the oil that is required for a 100,000 tonne biodiesel plant.

In addition to the potential revenues that the plantation is expected to generate, asset values are also expected to show an increase reflective of the state of maturity of the plantation. This will position us to fund an expansion in our plantation business when the time is right.

Of course, we are a long way from being a fully mature plantation, 5 years to be exact. But if we are able to stay the course and continue the progressive development of our plantation to maturity, we believe we will have an asset that will be capable of generating consistent revenues over a very long period of time. Oil palm trees bear fruit for 23 years which means our 60 year concession will see us through two planting cycles (and potentially a third should we extend the concession for a further 30 years).

All of this in a mature industry that has seen good growth and values over the last half century.

Over the course of this financial year, therefore, we will continue our efforts to secure funding to accelerate our plantation development and other upstream activities bearing in mind that funding in the light of the global credit squeeze will be challenging.

Highlights for FY2008

Notwithstanding the difficult operating environment, we achieved much over the course of the last financial year. Chief among these were:

- completion of our biodiesel plant
- successful closure of our feedstock supply contract at little cost to us

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- launch of our upstream strategy, in particular, our participation upstream within the oil palm – biodiesel value chain
- acquisition of our 4,200 hectare (10,000 acre) plantation development concession
- completion of the nursery for Phase 1 of our plantation development
- commencement of preliminary work on our proposed palm oil mill development
- successful implementation of cash management and cost containment initiatives

Financial Results

As was to be expected, we made a loss of A\$12.4 million for the year ended 30 June 2008.

Of this amount, A\$7.9 million represented a non-cash impairment charge against the carrying value of the biodiesel plant. This charge was required to be made as the plant was not operating at that point in time. Without this impairment charge, the loss for the year would have been A\$4.5 million. The full effects of cost containment measures effected in late 2007 will be fully reflected in FY2009.

Outlook for FY2009

Since our Operations Update in August, we have remobilized our biodiesel plant and successfully produced on-spec biodiesel. We hope that biodiesel prices will improve over the coming weeks so as to give us better margins to ramp up production.

We have still some way to go and will continue to manage our cash flows and contain costs while remaining focused on becoming a viable long term player in the biodiesel – oil palm industry.

The biodiesel industry itself is a relatively young industry. The industry is constantly evolving, market dynamics remain fluid. We need to be on our toes and constantly monitor trends and developments in the industry less we be left behind.

Our upstream strategy into a mature industry – the oil palm plantation industry – lends some stability to the volatility that surrounds the biodiesel industry. During the year, we will pursue funding options for our plantation development as well as our palm oil mill.

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Needless to say, the turmoil in global financial markets has caused growing uncertainty. We have yet to feel the full impact of the financial crisis on our business generally and specifically on our feedstock and product markets.

As in the last two years, we will meet these challenges head on with the best of our abilities and remain confident that we will overcome these challenges.

CRS Paragash
Group Managing Director

7 November 2008

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SECOND ANNUAL GENERAL MEETING

7 November 2008



Sterling Biofuels

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GROUP MANAGING DIRECTOR'S REPORT

1 July 2007 – 30 June 2008



Sterling Biofuels

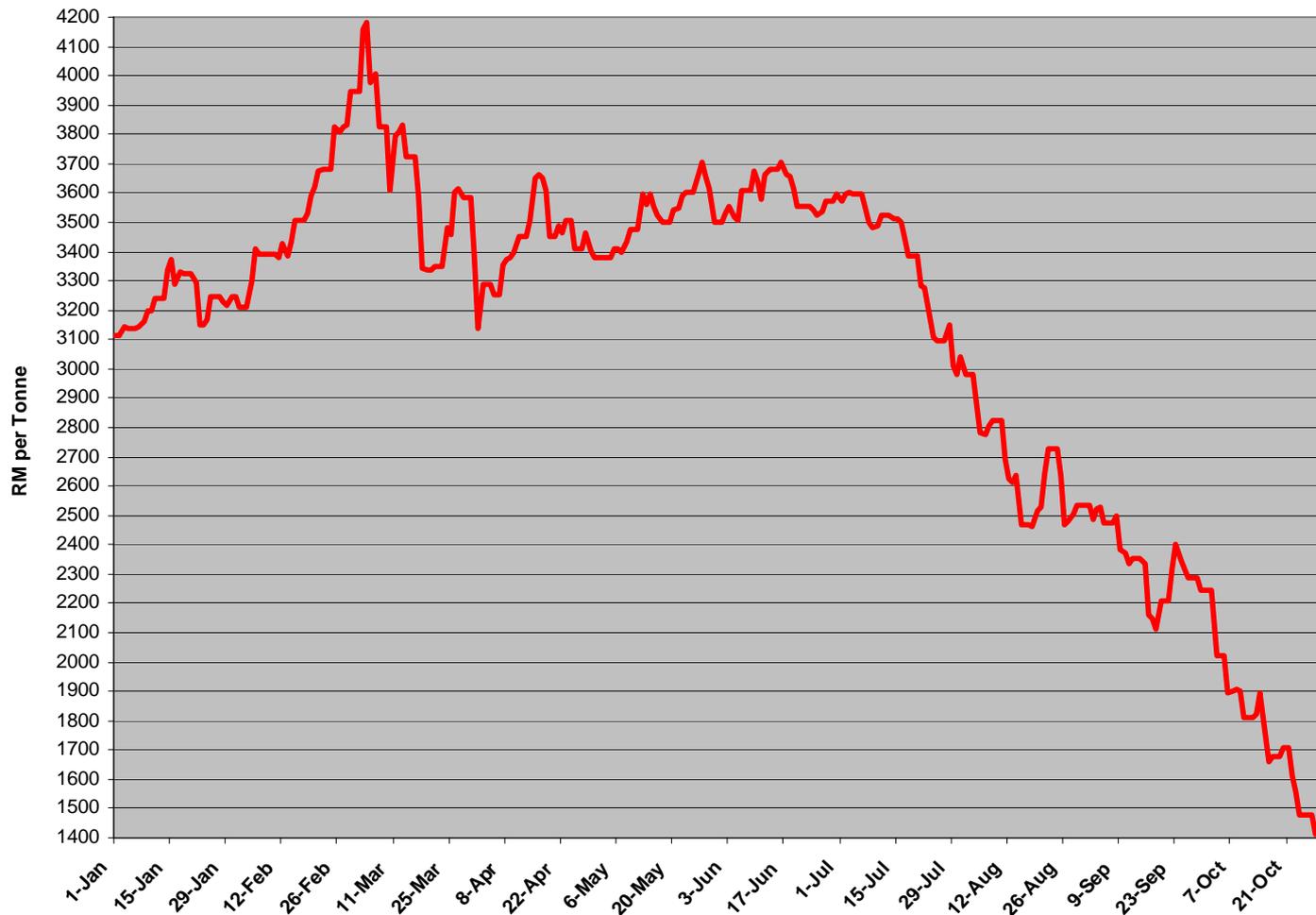
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RECAP OF KEY MARKET DRIVERS



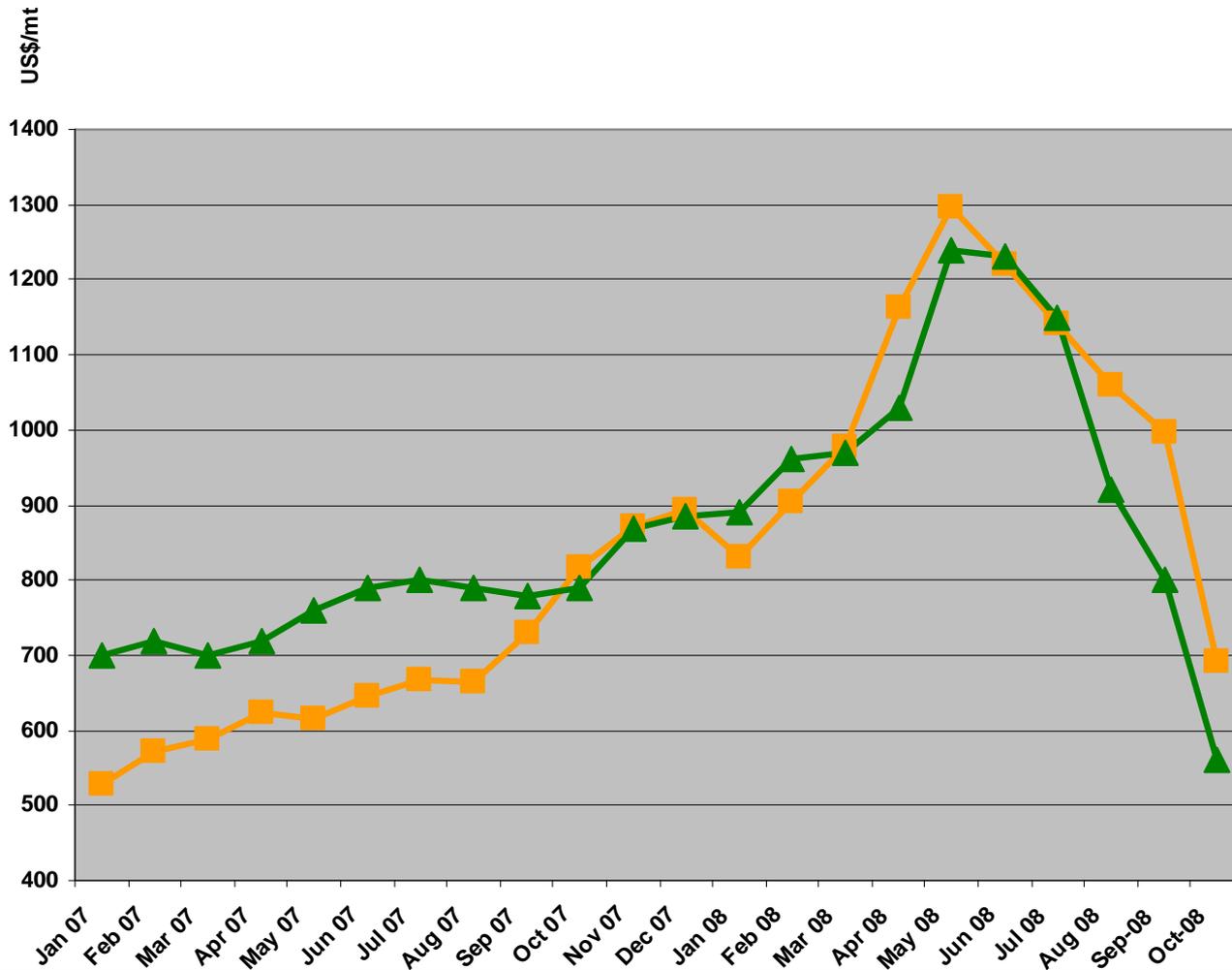
CRUDE PALM OIL PRICES

Fallen nearly 65% from peak in March 2008



PALM BIODIESEL PRICES

Influenced directionally by weakening crude oil prices



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— Diesel 50ppm — Biodiesel PME

CHALLENGES ON THE HORIZON

- Palm biodiesel continues to trade at steep discount to rape and soy equivalents
- Palm biodiesel prices weakening in line with fall in crude prices as well as palm prices – margin squeeze
- Current European Commission proposal further promotes use of sustainable renewable energy in the major EU market
- But sustainability criteria that are being discussed appear to work subtly against palm biodiesel producers
- Demand for palm biodiesel not as robust and buyers more cautious in light of global financial crisis

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SOME POSITIVE DEVELOPMENTS

- US lawmakers have closed “splash & dash” loophole with retrospective effect – should relieve some pressure on biodiesel prices in the EU
- Malaysian Government has announced introduction of 5% mandatory biodiesel blend

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100,000 MT PLANT IN MALAYSIA

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STERLING UPSTREAM STRATEGY

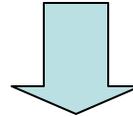
Participation in entire palm oil – biodiesel value chain

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Produces fresh fruit bunches

PLANTATION

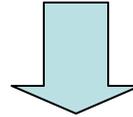
Sterling Biofuels



Produces crude palm oil

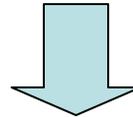
MILL

Sterling Biofuels



Refines crude palm oil

REFINERY



BIODIESEL REFINING

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PLANTATION DEVELOPMENT



SITE MAP



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PROJECT MILESTONES

Event	Date	Status
Concession signed	September 2007	Completed
Project mobilisation	October 2007	Completed
Nursery established	November 2007	Commenced on schedule
Plant out into ground	November 2008	Commenced on schedule
First harvest	July 2011	

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FIELD PROGRESS

A bird's eye view

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FIELD PROGRESS

Commencement of planting out

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PHASED DEVELOPMENT SCHEDULE

Phase	Land Area (hectares)	Start of Planting	First Harvest	Status
1	1,200	Nov 2008	Jul-Dec 2011	Planting out commenced
2	2,200	July 2009	Jan-Dec 2012	Nursery in progress
3	600	July 2010	Jan-Mar 2013	
Total	4,000*			

* Additional 200 hectares available for office and residential requirements.

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HIGHLIGHTS FOR FY2008

- Completion of biodiesel plant
- Feedstock management strategy initiated – successful closure of feedstock supply contract
- Launch of upstream strategy – participation upstream within palm oil–biodiesel value chain
- Acquisition of 4,200 hectare plantation development concession - nursery for Phase 1 completed
- Commenced preliminary work on palm oil mill development
- Successful implementation of cash management and cost containment initiatives

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FINANCIAL RESULTS

Financial year ended 30 June 2008

	30 June 08 A\$'000	30 June 07 A\$'000
Profit/(loss) for year	(12,449)*	(2,968)

* Includes non-cash impairment charge of A\$7,900,000 (2007: nil).

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OUTLOOK FOR FY2009

- Successful remobilisation of biodiesel plant and production of on-spec biodiesel – continuous production subject to biodiesel prices improving
- Continue to manage cash flows and contain costs
- Remain focused on becoming viable long term player in biodiesel - oil palm industry through implementation of upstream strategy
- Turmoil in global financial markets adds to growing uncertainty in feedstock and product markets
- Pursue funding options to further accelerate development of upstream activities

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