

23 February 2009

**Manager  
Company Announcements Office  
Australian Securities Exchange  
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 2008.

Yours sincerely



Susan Hunter  
Company Secretary  
Sterling Biofuels International Limited

# 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 2008

31 December 2007

### Results for announcement to the market

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

\$A'000

Revenues from ordinary activities	down	(56)%	to	106
Profit (loss) from ordinary activities after tax attributable to members	down	(65)%	to	(3,573)
Net profit (loss) for the period attributable to members	down	(65)%	to	(3,573)

<b>Dividends (distributions)</b>	Amount per security	Franked amount per security
Interim dividend declared	Nil	Nil
Previous corresponding period	Nil	Nil

+Record date for determining entitlements to the dividend, Not applicable

Brief explanation of any of the figures reported above to enable figures to be understood:

The consolidated loss after income tax for the half-year ended 31 December 2008 was \$3,573,000 (half-year ended 31 December 2007: loss of \$10,147,000).

During the period, the Group completed the remobilisation of its 100,000 metric tonne biodiesel plant in Malaysia and successfully produced a limited quantity of biodiesel to export (EN14214) specifications.

The decision to remobilise the plant was made against a backdrop of falling feedstock prices. However, the global economic slowdown and weakening crude oil prices has also resulted in a drop in biodiesel prices. Thus, continuous production going forward will depend on biodiesel prices improving.

Biodiesel prices have strengthened as the European summer approaches. This is in line with historical trends. With the successful remobilisation of the plant, the Group stands ready to take advantage of windows of opportunity for production when biodiesel prices and feedstock prices are at levels that provide positive margins.

Until the economics of production becomes clearer, the Group continues to manage its cash flows and take steps to further contain costs. Since the end of the period, the Group has reduced operational overheads further and slowed down its plantation development.

Pending the commencement of continuous production and in the light of the global economic downturn, the Group is reviewing various funding alternatives to ensure that it is able to meet its obligations as and when they fall due.

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

<b>NTA backing</b>	Current period	Previous corresponding Period
Net tangible asset backing per <sup>+</sup> ordinary security	\$0.20	\$0.23

**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 <sup>+</sup> 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 <sup>+</sup>accounts have been subject to review



Sign here: .....  
Group Managing Director

Date: 23 February 2009

Print name: Dato' CRS Paragash

<sup>+</sup> See chapter 19 for defined terms.

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**Sterling Biofuels International Limited**  
ACN 119 880 492

**Half-Year Report**  
**31 December 2008**

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## Corporate Directory

### DIRECTORS

Alister T Maitland (Chairman)  
Dato' CRS Paragash (Group Managing Director)  
Andrew Phang (Group Executive Director)  
Adam Sierakowski (Non-Executive Director)

### SHARE REGISTRY

Computershare Investor Services Pty Ltd  
Level 2, 45 St Georges Terrace  
Perth WA 6000

### COMPANY SECRETARY

Susan Hunter

### BANKERS

Westpac Banking Corporation  
1257-1261 Hay Street  
West Perth WA 6005

### REGISTERED OFFICE IN AUSTRALIA

Ground Floor, 16 Ord Street  
West Perth WA 6005  
Australia

Telephone: (618) 9324 8583  
Facsimile: (618) 9324 8586

Website: [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com)

### AUDITORS

Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000

### HOME EXCHANGE

Australian Stock Exchange  
Exchange Plaza  
2 The Esplanade  
Perth WA 6000

### ASX Code

SBI

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## **Directors' Report**

The Directors present their report for the half-year ended 31 December 2008.

### **Directors**

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

Alister T Maitland	(Chairman)
Dato' CRS Paragash	(Group Managing Director)
Andrew Phang	(Group Executive Director)
Adam Sierakowski	(Non-Executive Director)

### **Principal Activities**

The principal activity of the Company consists of investment holding.

The principal activity of the Group is the manufacture of biodiesel primarily from palm oil with an increasing focus on the value chain upstream including oil palm plantations and mills. There have been no significant changes in the nature of these activities during the period.

### **Review and Results of Operations**

The consolidated loss after income tax for the half-year ended 31 December 2008 was \$3,573,000 (half-year ended 31 December 2007: loss of \$10,147,000).

During the period, the Group completed the remobilisation of its 100,000 metric tonne biodiesel plant in Malaysia and successfully produced a limited quantity of biodiesel to export (EN14214) specifications.

The decision to remobilise the plant was made against a backdrop of falling feedstock prices. However, the global economic slowdown and weakening crude oil prices has also resulted in a drop in biodiesel prices. Thus, continuous production going forward will depend on biodiesel prices improving.

Biodiesel prices have strengthened as the European summer approaches. This is in line with historical trends. With the successful remobilisation of the plant, the Group stands ready to take advantage of windows of opportunity for production when biodiesel prices and feedstock prices are at levels that provide positive margins.

Until the economics of production becomes clearer, the Group continues to manage its cash flows and take steps to further contain costs. Since the end of the period, the Group has reduced operational overheads further and slowed down its plantation development.

Pending the commencement of continuous production and in the light of the global economic downturn, the Group is reviewing various funding alternatives to ensure that it is able to meet its obligations as and when they fall due.

### **Rounding of Amounts**

Sterling Biofuels International Limited is an entity to which Australian Securities and Investments Commission Class Order 98/100 applies. Pursuant to this Class Order, amounts reported in this report and the financial statements have been rounded to the nearest thousand dollars, except where not permitted to be rounded under the Corporations Act 2001.

**Auditor's Independence Declaration**

We have obtained the auditor's independence declaration from Ernst & Young, which is set out on page 4.

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

A handwritten signature in black ink, appearing to be "Dato' CRS PARAGASH", written over a horizontal line.

**Dato' CRS PARAGASH**  
**Group Managing Director**  
**Perth 23 February 2009**

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

In relation to our review of the financial report of Sterling Biofuels International Limited for the half-year ended 31 December 2008, 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

*Peter Mclver*

Peter Mclver  
Partner  
Perth

23 February 2009

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## Consolidated Income Statement For The Half Year Ended 31 December 2008

	Note	Consolidated	
		31 December 2008 \$'000	31 December 2007 \$'000
<b>Continuing operations</b>			
<b>Revenue</b>			
Finance income		86	241
Other income		20	-
		<hr/>	<hr/>
		106	241
Impairment of inventory		(1,455)	-
Employee benefits expense		(544)	(1,006)
Depreciation and amortisation		(920)	(440)
Finance costs		(31)	-
Other expenses	2	(721)	(8,942)
		<hr/>	<hr/>
<b>Loss before income tax</b>		<b>(3,565)</b>	<b>(10,147)</b>
Income tax expense	3	(8)	-
		<hr/>	<hr/>
<b>Net loss for the period</b>		<b>(3,573)</b>	<b>(10,147)</b>
<b>Loss per share for loss attributable to the ordinary equity holders of the parent</b>			
- basic loss per share (cents per share)		(5.50)	(15.62)
- diluted loss per share (cents per share)		(5.50)	(15.62)

## Consolidated Balance Sheet As at 31 December 2008

	Note	Consolidated	
		31 December 2008 \$'000	30 June 2008 \$'000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	2,011	5,358
Trade and other receivables		51	34
Inventory		3,610	458
Other current assets		556	236
<b>Total current assets</b>		<b>6,228</b>	<b>6,086</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	5	11,370	6,942
Prepaid land lease payments		2,091	1,615
Biological assets	6	324	118
<b>Total non-current assets</b>		<b>13,785</b>	<b>8,675</b>
<b>TOTAL ASSETS</b>		<b>20,013</b>	<b>14,761</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables		875	1,325
Interest bearing loans and borrowings	7	4,033	19
<b>Total current liabilities</b>		<b>4,908</b>	<b>1,344</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest bearing loans and borrowings	7	60	56
<b>Total non-current liabilities</b>		<b>60</b>	<b>56</b>
<b>TOTAL LIABILITIES</b>		<b>4,968</b>	<b>1,400</b>
<b>NET ASSETS</b>		<b>15,045</b>	<b>13,361</b>
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Contributed equity		32,143	32,143
Accumulated losses		(20,426)	(16,853)
Reserves		3,328	(1,929)
<b>TOTAL EQUITY</b>		<b>15,045</b>	<b>13,361</b>

## Consolidated Statement of Changes in Equity

Consolidated	Issued Capital \$'000	Accumulated Losses \$'000	Equity Benefits Reserve \$'000	Foreign Currency Translation Reserve \$'000	Total \$'000
<b>At 1 July 2007</b>	<b>32,143</b>	<b>(4,404)</b>	<b>751</b>	<b>(831)</b>	<b>27,659</b>
Exchange differences arising on translation of foreign operations	-	-	-	77	77
Total income/(expense) for the period recognised directly in equity	-	-	-	77	77
Loss for the period	-	(10,147)	-	-	(10,147)
<b>Total income/(expense) for the period</b>	<b>-</b>	<b>(10,147)</b>	<b>-</b>	<b>77</b>	<b>(10,070)</b>
Write-back of share-based payment	-	-	(369)	-	(369)
<b>At 31 December 2007</b>	<b>32,143</b>	<b>(14,551)</b>	<b>382</b>	<b>(754)</b>	<b>17,220</b>
<b>At 1 July 2008</b>	<b>32,143</b>	<b>(16,853)</b>	<b>224</b>	<b>(2,153)</b>	<b>13,361</b>
Exchange differences arising on translation of foreign operations	-	-	-	5,241	5,241
Total income/(expense) for the period recognised directly in equity	-	-	-	5,241	5,241
Loss for the period	-	(3,573)	-	-	(3,573)
<b>Total income/(expense) for the period</b>	<b>-</b>	<b>(3,573)</b>	<b>-</b>	<b>5,241</b>	<b>1,668</b>
Cost of share-based payment	-	-	16	-	16
<b>At 31 December 2008</b>	<b>32,143</b>	<b>(20,426)</b>	<b>240</b>	<b>3,088</b>	<b>15,045</b>

## Consolidated Cash Flow Statement For The Half Year Ended 31 December 2008

	Consolidated	
	31 December 2008	31 December 2007
	A\$'000	A\$'000
<b>Cash flows from operating activities</b>		
Interest received	86	241
Payments to suppliers and employees	(5,682)	(5,275)
<b>Net cash flows used in operating activities</b>	<b>(5,596)</b>	<b>(5,034)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(966)	(2,136)
Additions to biological assets	(152)	(22)
Acquisition of other assets	-	(23)
<b>Net cash flows used in investing activities</b>	<b>(1,118)</b>	<b>(2,181)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	4,034	-
Repayment of other payables	(989)	-
<b>Net cash flows from financing activities</b>	<b>3,045</b>	<b>-</b>
<b>Net (decrease)/increase in cash held</b>	<b>(3,669)</b>	<b>(7,215)</b>
Cash and cash equivalents at beginning of period	5,358	13,328
Net foreign exchange differences	322	(96)
<b>Cash and cash equivalents at end of period</b>	<b>2,011</b>	<b>6,017</b>

## Notes to the Consolidated Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2008 has been prepared in accordance with AASB 134 "Interim Financial Reporting" and the Corporations Act 2001.

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 financial report be read in conjunction with the annual financial report of Sterling Biofuels International Limited as at 30 June 2008 and considered together with any public announcements made by Sterling Biofuels International Limited during the half-year ended 31 December 2008 in accordance with the continuous disclosure obligations of the ASX listing rules.

The accounting policies applied by the economic entity in this consolidated financial report are the same as those applied by the economic entity in its consolidated financial report as at and for the year ended 30 June 2008 except for the new policies adopted below on plantation development costs, biological assets and borrowing costs.

#### Changes in accounting policy

Since 1 July 2008, the Group has adopted the Standards and Interpretations, mandatory for financial reporting periods beginning on or after 1 July 2008. Adoption of these Standards and Interpretations did not have any material effect on the financial position or performance of the Group.

The Group has not elected to early adopt any new standards or amendments.

#### Going concern

During the half-year ended 31 December 2008, the Group incurred net losses of \$3.573 million and a net cash outflow from operations of \$5.596 million. The Group also has inventory of \$3.610 million held for sale at 31 December 2008.

The condensed half-year financial report has been prepared on the basis that the Group will continue to meet their commitments and can therefore continue normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

In arriving at the position, the directors are reviewing various funding alternatives including:

- equity raising;
- debt raising; and
- sale of selected assets.

The directors believe that at the date of signing the financial report there are reasonable grounds to believe that having regard to matters set out above, the Group will continue to have the support of their bankers and will be able to raise sufficient funds to meet its obligations as and when they fall due.

Should the Group not achieve the matters set out above there is significant uncertainty whether the Group will continue as a going concern and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at amounts stated in the financial report.

The financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classifications of liabilities that might be necessary should the Group not be able to continue as a going concern.

#### **Plantation development costs**

Costs incurred on land clearing are capitalised as plantation development costs and is amortised over the economic useful life of the asset.

Costs on the concession land lease with a term of 60 years are charged to the income statement in the period in which the costs are incurred.

#### **Biological assets**

Biological assets are measured on initial recognition and each reporting date at fair value less estimated point of sale costs except when the fair value cannot be measured reliably. In this instance the biological asset is measured at its cost less any accumulated depreciation and any accumulated impairment losses until such time as its fair value can be reliably measured.

Fresh fruits bunches (which is subsequently milled to become palm oil) is the harvested product of a biological asset and is measured at its fair value less estimated point of sale costs at the point of harvest.

Net movements in fair value less estimated point of sale costs of biological assets are included in the income statement in the year they arise.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate which is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining another qualifying asset, the amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of that borrowing.

All other borrowing costs are recognised as an expense in the income statement in the period in which they are incurred.

**2. OTHER EXPENSES**

In previous year, other expenses included an impairment charge of \$7,900,000 in relation to the biodiesel plant and buildings in Lahad Datu, Malaysia.

**3. INCOME TAX**

SPC Biodiesel, a 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 2008, the income tax expense of \$8,000 (2007: nil) primarily represents tax paid on interest income.

**4. CASH AND CASH EQUIVALENTS**

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

	<b>Consolidated</b>	
	<b>31 December 2008</b>	<b>30 June 2008</b>
	<b>A\$'000</b>	<b>A\$'000</b>
Cash at bank	96	4,193
Deposits	1,915	1,165
Cash and cash equivalents	2,011	5,358

Deposits with licensed banks of \$1,020,000 (30 June 2008: \$41,000) are restricted deposits pledged as security for banking facilities.

**5. PROPERTY, PLANT AND EQUIPMENT**

	<b>Consolidated</b>	
	<b>31 December 2008</b>	<b>30 June 2008</b>
	<b>A\$'000</b>	<b>A\$'000</b>
Biodiesel plant and equipment		
At cost	18,320	14,061
Less: accumulated depreciation	(2,290)	(1,111)
Less: impairment charge	(7,470)	(7,470)
	8,560	5,480



5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Consolidated	
	31 December 2008	30 June 2008
	A\$'000	A\$'000
Buildings		
At cost	1,315	870
Less: accumulated depreciation	(86)	(44)
Less: impairment charge	(430)	(430)
	<u>799</u>	<u>396</u>
Motor vehicles		
At cost	472	343
Less: accumulated depreciation	(142)	(79)
	<u>330</u>	<u>264</u>
Motor vehicles – under finance lease		
At cost	125	96
Less: accumulated depreciation	(42)	(23)
	<u>83</u>	<u>73</u>
Office equipment		
At cost	166	116
Less: accumulated depreciation	(46)	(25)
	<u>120</u>	<u>91</u>
Plantation equipment and machinery		
At cost	626	417
Less: accumulated depreciation	(44)	(10)
	<u>582</u>	<u>407</u>
Plantation development costs		
At cost	896	231
	<u>896</u>	<u>231</u>
<b>Total property, plant and equipment</b>	<b><u>11,370</u></b>	<b><u>6,942</u></b>

The movements in property, plant and equipment during the period include the effect of foreign exchange.

## 6. BIOLOGICAL ASSETS

	Consolidated	
	31 December 2008	30 June 2008
	A\$'000	A\$'000
Growing crops		
At fair value	324	118
	324	118

## 7. INTEREST BEARING LOANS AND BORROWINGS

	Consolidated	
	31 December 2008	30 June 2008
	A\$'000	A\$'000
<b>Current</b>		
Obligations under the hire purchase contracts	25	19
Bank borrowings	4,008	-
	4,033	19
<b>Non-current</b>		
Obligations under the hire purchase contracts	60	56
	60	56

Bank borrowings relate to draw down under a trade facility having a tenure of up to 120 days. The interest rates of these bank borrowings at the half-year report date range between 5.20% and 5.23% per annum (30 June 2008: nil).

The trade facility of \$10.406 million (RM25 million) granted to the Group's wholly-owned Malaysian subsidiary, SPC Biodiesel Sdn Bhd, has been renewed for another year to September 2009 and is secured by way of cash deposit of 20% of the facilities utilised.

The Group has drawn down \$4.008 million of its trade facility which is repayable between April and May 2009.

## 8. DIVIDENDS PAID AND PROPOSED

The Company did not declare a dividend during the half-year ended 31 December 2008 (2007: nil).

## 9. SEGMENT INFORMATION

### Geographical Segments

The Group's operations are based in Malaysia.

### Industry Segments

The Group is involved in the business of manufacturing biodiesel and the development of an oil palm plantation.

## 9. SEGMENT INFORMATION (CONT'D)

The following table presents revenue and loss information regarding business segments for the half years ended 31 December 2008 and 31 December 2007.

	Biodiesel production	Oil palm plantation	Unallocated	Total
	A\$'000	A\$'000	A\$'000	A\$'000
<b>Half year ended 31 December 2008</b>				
<b>Revenue</b>				
Finance income – interest	-	-	86	86
Other income	20	-	-	20
Total consolidated revenue	20	-	86	106
<b>Result</b>				
Segment result	(2,777)	(643)	-	(3,420)
Unallocated result	-	-	(145)	(145)
Loss before tax	(2,777)	(643)	(145)	(3,565)
<b>Half year ended 31 December 2007</b>				
<b>Revenue</b>				
Finance income – interest	-	-	241	241
Total consolidated revenue	-	-	241	241
<b>Result</b>				
Segment result	(9,668)	(534)	-	(10,202)
Unallocated result	-	-	55	55
Loss before tax	(9,668)	(534)	55	(10,147)

## 10. SUBSEQUENT EVENTS

No matter or circumstance has arisen since 31 December 2008 that has significantly affected, or may significantly affect, the operations of Sterling Biofuels International Limited and its controlled entities, the results of those operations or the state of affairs of Sterling Biofuels International Limited and its controlled entities in subsequent years that is not otherwise disclosed in this report or the consolidated financial statements.

## 11. COMMITMENTS AND CONTINGENCIES

There have been no changes to or additional commitments or contingencies to those disclosed in the 30 June 2008 annual report.

## 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) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 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) subject to matters set out in note 1 "going concern", 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



**Dato' CRS PARAGASH**  
Group Managing Director  
23 February 2009

To the members of Sterling Biofuels International Limited

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Sterling Biofuels International Limited, which comprises the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the half year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the half-year end or from time to time during the half-year.

#### *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 establishing 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 Interim and Other Financial Reports 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 consolidated entity's financial position as at 31 December 2008 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. As the auditor of Sterling Biofuels International Limited and the entities it controlled during the half-year, 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.

#### *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 Limited is not in accordance with the Corporations Act 2001, including:

- i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the six months ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report. As a result of these matters there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

  
Ernst & Young



P McIver  
Partner  
Perth

23 February 2009