Interim Financial Report

For the half-year ended 31 December 2013

Australian Renewable Fuels Limited
ABN 66 096 782 188

Corporate information

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Appendix 4D

For the half-year ended 31 December 2013
Previous corresponding period: half-year ended 31 December 2012

Results for announcement to the market

	31 Dec 2013 $A'000's	31 Dec 2012 $A'000's	Up/Down	% Movement
Revenue from ordinary activities	40,761	29,264	Up	39%
Profit/(loss) from ordinary activities after tax attributable to members	(2,259)	1,504	Down	250%
Net profit/(loss) for the period attributable to members	(2,259)	1,509	Down	250%

No interim dividends have been declared for the half-year ended 31 December 2013.

Net tangible asset backing

	31 Dec 2013	31 Dec 2012
Net tangible assets per ordinary security[i]	54 cents per share	45 cents per share

[i]Note that during the half-year ended 31 December 2013 ARfuels completed a Share Consolidation on a 100:1 basis. The 31 December 2012 comparative has been restated accordingly.

Foreign entities

AR Fuels US LLC – This non operating entity was incorporated on 15 July 2013 and has been consolidated into the Group accounts in accordance with AIFRS.

Additional Appendix 4D disclosure requirements can be found in the Directors' report and the 31 December 2013 half-year financial report.

This report is based on the consolidated 31 December 2013 half-year financial statements which have been reviewed by Deloitte with the independent auditor's report included in the 31 December 2013 half-year financial report.

Signed

Philip Garling
Chairman
Melbourne, 27 February 2014

Directors' report

The Directors of Australian Renewable Fuels Limited (ARfuels) present the financial report of the Company for the half-year ended 31 December 2013.

The Directors of the Company during and since the end of the half-year are:

Name	Office
Philip Garling	Chairman, Non-Executive Director
Andrew White	Managing Director
Michael Costello AO	Non-Executive Director
Michael Iwaniw	Non-Executive Director (appointed 8 November 2013)
Deborah Page AM	Non-Executive Director
Julien Playoust	Non-Executive Director

General overview

The result for the first six months of this financial year includes:

- A net loss after tax of $2.3 million consisting of:
  - Barnawartha plant profit of $4.0m;
  - Picton plant loss of $1.6m;
  - Largs Bay plant loss of $2.4m; and
  - Corporate and finance costs of $2.3m.
- Revenue from ordinary activities increased by $11.5m to $40.8m over the prior corresponding half-year period, this represents a 39% increase;
- Total net cash generation of $1.4 million for the period;
- Over 26.3 million litres of biodiesel was produced for the six month period, up from 25 million litres for the prior corresponding half-year period; and
- Completion of two further export shipments to the USA totalling over 10 million litres.

The Barnawartha plant continues to drive strong sales and profit into the business and this provides a sound platform for the future. One-off export costs and upfront recommissioning expenses at the Picton and Largs Bay plants resulted in material losses at those plants for the six months – those losses are not expected to continue.

The losses at Picton and Largs Bay were the result of the following

- The margin on the second export shipment deteriorated markedly. A combination of poor production performance which required us to reschedule our shipping date resulted in the sales contract having to be renegotiated. At that time biodiesel prices in the USA had dropped significantly.

  The falling price was driven by announced decreases in the USA biofuels mandate volumes and the termination of a tax incentive in the USA. These changes and the consequent reduction in our selling price resulted in a material loss on the second export shipment. Those changes mean the USA market is not currently profitable. We will continue to monitor the US market to take advantage of further opportunities should they arise.

- The domestic sales market is currently difficult to penetrate in Western Australia and South Australia as a result of the absence of biodiesel blending and storage infrastructure. We have identified options to install infrastructure, but we will not proceed with those capital projects without execution of sales contracts to support the investments.

- The ramp up of resources and commissioning expenses at Largs Bay and Picton was significant. That investment would ordinarily be recouped with sales growth. The suspension of the export program and lack of domestic sales demand meant those costs were not recoupable and are effectively sunk costs for the six month period.

Focus will remain on maximising profit at the Barnawartha plant. We have also scaled back the resources at the Picton and Largs Bays plants to meet sales demand on an as needed basis. Together with reductions in Corporate costs these actions have resulted in the business returning to profitable performance in January 2014. We expect that the profitable performance will continue for the balance of the financial year and beyond.

Financial performance

The result of the Group for the half-year ended 31 December 2013 was a Net Loss After Tax (NLAT) of $2,289,453 compared to the prior corresponding period Net Profit After Tax (NPAT) of $1,479,096.

The NLAT for the half-year ended 31 December 2013 includes a $1.15m reduction in Contingent Consideration provision that was raised as part of the purchase of the Barnawartha plant (included in Other Revenue). The NPAT of $1,479,096 for the half-year ended 31 December 2012 included an unrealised gain on Derivative Liability of $1.1m (included in Other Revenue).

Other material movements in key financial categories against the prior corresponding period are as follows:

- Revenue from ordinary activities was up by $11,496,429 to $40,760,826. This was driven by export sales of $11,444,038 for the six months to 31 December 2013. Included in Revenue are sales of by-products (mainly glycerine).
- Raw materials, costs of consumables and freight increased by $11,706,438 to $34,064,311. The increase was due to the increase in purchases of feedstock to meet the sales growth and the incremental shipping and port costs related to the two export shipments.
- Direct costs (plant labour, utility costs, repairs and maintenance, tank leasing and insurance) increased by $3,446,841. The increase was due to:
    - The Largs Bay plant being operational for the full six month period whereas during the prior corresponding period it was not fully operational. Additionally, the plant was fully resourced with staff. Commissioning costs and expenses related to fulfilling the two export shipments for the period were also incurred and these were significant year on year incremental costs.
    - Picton incurred incremental costs relating to the ramp up of production to fulfil the two export orders. Increased costs were predominately labour and storage related.
    - The overall cost of plant and production related insurance has increased year on year. The half-year Insurance expense has increased by $65,441 on the prior period.
- Staff costs have increased by $289,878 due to the increase in staff in the areas of sales, group manufacturing and finance. This level of investment has since been reduced to match current production and sales levels.
- A $1,150,000 adjustment to the Contingent Consideration provision is included within the Other Revenue category. This amount represents a reduction in the Contingent Consideration provision related to the earn-out payments for the acquisition of Biodiesel Producers Limited in November 2011. (Refer Note 6 and Note 11 of the Notes to the Accounts for further commentary).

ARfuels delivered positive Net Cash Flow movement for the six months of $1,390,613. This was primarily due to receipt of insurance proceeds of $3,900,000 relating to the Business Interruption claim that was settled in the prior financial year. Over $2m in finished goods inventory was on hand at 31 December 2013.

Capital outlay of $390,372 has been made at the Barnawartha and Largs Bay plants to enhance their production capabilities. Capital expenditure for the remainder of the year will be restricted to similar levels.

Corporate overview

ARfuels undertook a Share Consolidation on a 100:1 basis which was completed during September 2013. In addition, an Unmarketable Share Parcel program was completed in December 2013. These actions relating to the Issued Shares of ARfuels have provided the following benefits:

- Simplified the share holding base; and
- Created administrative efficiencies and cost savings by reducing the number of holders from over 3,000 to approximately 1,500.

As announced earlier this financial year, Global Biofuels Trading Inc. (GBTI) has issued a Notice of Discontinuance of its claim against ARfuels.

Operations overview

Plant performance

All plants produced significant amounts of biodiesel for the six months. Barnawartha continues to produce the majority of product, which is underpinned by the demand from oil majors and long term domestic clients. Largs Bay and Picton were used predominately to fulfill the two export shipments. Over 26.3 million litres has been produced for the half-year which is up from 25 million litres for the prior corresponding period.

The Largs Bay and Picton plants will now only produce on execution of sales contracts. Until the export program recommences or when domestic sales are contracted these plants will remain on stand-by.

Sales and marketing

During the six months ended 31 December 2013 market prices for biodiesel continued to fluctuate in line with crude oil and mineral diesel prices.

ARfuels sold over 33.7 million litres of biodiesel for the 6 month period ended 31 December 2013, of which 10.6 million litres were exported into the US market. Group biodiesel sales for the six month period were $40,036,964. This compares with sales of $28,676,277 on volumes of 25.1 million litres for the corresponding six month period last financial year.

Domestically, the effort to grow sales has not proven to be as successful as had been planned. The sales pipeline remains good but converting the pipeline to contracted sales is taking longer than expected.

The two shipments of biodiesel to the USA, whilst a significant achievement for the Group, were negatively impacted by production and shipping issues. In November 2013 the US EPA announced their intention to reduce renewable fuel mandates and credit incentives for calendar year 2014. This had an immediate and negative material effect on pricing into the USA. At that time the sales contract for the second shipment had to be renegotiated due to the abovementioned production and shipping issues. This meant that the sales price on the second shipment was drastically reduced and resulted in a material financial loss on that shipment.

Feedstock

For the six month period ended 31 December 2013 average domestic feedstock prices fluctuated between $833 and $996 per tonne (2012: $750 - $850). These high costs were the result of demand from Asia driving the cost of feedstock to unusually high levels. Notwithstanding this, the margins on domestic sales were maintained and consistent.

Our underlying strategy remains to seek a lower cost and stable supply alternative feedstock. ARfuels will continue to investigate feedstock alternatives with focus not only on price, but on sustainability, consistency of supply, and reliability of delivery. Asia remains the key focus of our search.

Risks and corporate governance

ARfuels continues to monitor key risks and uncertainties on a regular basis. The key areas of focus are

Plant performance

- Preventative maintenance programs are in place to ensure that all plants can produce quality biodiesel, satisfy sales demand and mitigate risk of plant breakdown.
- All plants have appropriate levels of insurance in place. Insurance cover includes: plant damage, public and products liability and business interruption.

Work health and safety

- All staff are fully engaged in ARfuels' WHS practices. The health and safety of all ARfuels staff and visitors is a high priority. All staff and visitors must undergo appropriate levels of WHS training and induction prior to entering any of our plants.
- The Board and ARfuels management constantly monitor key WHS metrics and WHS performance remains a key focus of the business in general.

Financial management

- Policies and processes are in place to mitigate risk ARfuels has in regards to commodity pricing and currency exposure in particular. ARfuels has the ability, as required, to apply hedging strategies to protect margins or cash flow.
- ARfuels use expert and independent advice when determining when and what type of hedging strategy is required. This enhances our ability to assess the prevailing financial markets and make appropriate financial decisions.

General business activities

- Revenue growth is a key risk facing ARfuels. Management has plans and strategies to mitigate this risk and when executed they should provide ARfuels every chance to protect revenue streams and to also manage sales growth. This remains a key focus of the Board and Management.
- Access to sufficient and appropriately priced feedstock is a risk monitored by ARfuels. Work continues to expand the network of credible suppliers and gain access to a greater spread of competitively priced feedstock.
- Attracting, retaining and developing key staff to help manage and continue the growth of ARfuels is a key focus for Management and the Board. We are satisfied that the current infrastructure in place is sufficient to mitigate this risk and reduce the impact of unplanned turnover.
- Changes in regulations or government policy applicable to the Group's operations may result in: additional compliance costs; negative changes to existing operations; and impact future commercial decisions. Management mitigate this risk by being proactively engaged with the government, regulators and industry to seek appropriate policy outcomes.

The Board reviews Management's assessment and actions around risk control on an ongoing basis. The Audit and Risk Committee Charter has been expanded to encompass the broader review of Risk and to review and monitor Management's performance of assessing and controlling identified risks.

Business strategies and prospects

The suspension of the export program, along with time required to execute domestic sales contracts and complete capital works on blending infrastructure mean that material sales and production levels out of the Picton and Largs Bay plants will not occur before July 2014.

Accordingly, these plants remain on standby until those sales contracts and capital works are underway. We have staffing levels in place that will enable sales orders to be filled on an as-needs basis at each plant.

During the next six months, Barnawartha forward orders and contracts should see that plant run at levels that will drive strong sales and profitable performance in the business.

The work on domestic sales and prudent cost management across the business should result in ARfuels producing monthly profits from January 2014. Our aim is to generate sufficient second half profit to offset the loss incurred for the first six months of the financial year. This will also provide impetus into the 2015 financial year where we expect our sales and profit to continue to grow, subject to prevailing market conditions.

Auditor's independence declaration

The Auditor's independence declaration is included on page 7 of the half-year financial report.

Signed in accordance with a resolution of the Directors made pursuant to *section 306(3)* of the *Corporations Act 2001.*

On behalf of the Directors

Philip Garling
Chairman
Melbourne, 27 February 2014

Auditor’s independence declaration

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The Board of Directors
Australian Renewable Fuels Limited
Level 5, 409 St Kilda Road
MELBOURNE VIC 3004

27 February 2014

Dear Board Members

Australian Renewable Fuels Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Australian Renewable Fuels Limited.

As lead audit partner for the review of the financial statements of Australian Renewable Fuels Limited for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Sanders

Ian Sanders
Partner
Chartered Accountant

Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2013

	Note	Half-year ended 31 Dec 2013 $	2012 $
Revenue from operations	3	40,760,826	29,264,397
Cost of goods sold		(34,064,311)	(22,357,873)
Gross profit		6,696,515	6,906,524
Direct costs		(5,599,347)	(2,152,506)
Corporate and administration expenses		(1,123,910)	(1,146,084)
Staff costs		(1,573,683)	(1,283,805)
Other revenue	3	1,107,989	1,086,715
Finance income	3	665	8,502
Depreciation and amortisation expenses		(890,682)	(949,497)
Finance costs	4	(907,000)	(990,753)
Profit/(loss) before tax		(2,289,453)	1,479,096
Income tax (expense)		-	-
Profit/(loss) for the period		**(2,289,453)**	**1,479,096**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss:		-	-
		-	-
Items that may be reclassified subsequently to profit or loss:			
Exchange reserve arising on translation of foreign operations		-	4,438
Reclassification adjustments relating to foreign operations disposed of in the year		-	-
		-	4,438
Other comprehensive income for the year net of income tax		-	4,438
Total comprehensive income for the year		**(2,289,453)**	**1,483,534**
Profit for the year attributable to:			
Owners of the parent		(2,259,314)	1,504,337
Non-controlling interests		(30,139)	(25,241)
		(2,289,453)	1,479,096
Total comprehensive income attributable to:			
Owners of the parent		(2,259,314)	1,508,775
Non-controlling interests		(30,139)	(25,241)
		(2,289,453)	1,483,534
Earnings per share			
From continuing operations:			
Basic (cents per share)		(0.14)	0.06
Diluted (cents per share)		(0.14)	0.06

The condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Condensed consolidated statement of financial position at 31 December 2013

	Note	31 Dec 2013 $	30 Jun 2013 (Restated) $
Current assets			
Cash and cash equivalents		1,672,680	2,057,755
Trade and other receivables		2,417,090	4,135,122
Inventories		8,176,572	10,795,407
Other		1,092,857	5,455,297
Total current assets		**13,359,199**	**22,443,581**
Non-current assets			
Property, plant and equipment	5	32,488,576	32,957,931
Other		615,857	636,986
Total non-current assets		**33,104,433**	**33,594,917**
Total assets		**46,463,632**	**56,038,498**
Current liabilities			
Bank working capital facilities	8	2,359,691	4,211,911
Trade and other payables		6,375,626	10,723,480
Provisions		331,937	329,238
Amounts payable on acquisition	6, 11	714,167	699,000
Total current liabilities		**9,781,421**	**15,963,629**
Non-current liabilities			
Amounts payable on acquisition	6, 11	-	1,301,000
Provisions		214,992	168,715
Convertible notes	7	13,916,257	13,916,257
Total non-current liabilities		**14,131,249**	**15,385,972**
Total liabilities		**23,912,670**	**31,349,601**
Net assets		**22,550,962**	**24,688,897**
Equity			
Issued capital	9	135,944,302	135,944,302
Reserves		2,302,736	2,151,218
Accumulated losses		(115,408,091)	(113,148,777)
Equity attributable to owners of the company		22,838,947	24,946,743
Non-controlling interests		(287,985)	(257,846)
Total equity		**22,550,962**	**24,688,897**

The condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2013

	Issued capital $	Employee share option reserve $	Foreign currency translation reserve $	General options reserve $	Other reserve $	Accumulated profits/(losses) $	Attributable to owners of the parent $	Non-controlling interests $	Total $
Balance at 30 June 2012	**124,176,890**	**878,801**	**(469,371)**	**1,105,706**	**-**	**(116,101,098)**	**9,590,928**	**(201,877)**	**9,389,051**
Restatement (Refer to Note 5)	-	-	-	-	-	649,731	649,731	-	649,731
Balance at 1 July 2012	**124,176,890**	**878,801**	**(469,371)**	**1,105,706**	**-**	**(115,451,367)**	**10,240,659**	**(201,877)**	**10,038,782**
Movement in foreign exchange values	-	-	4,438	-	-	-	4,438	-	4,438
Profit/(loss) for the period	-	-	-	-	-	1,504,337	1,504,337	(25,241)	1,479,096
Total comprehensive income for the period	-	-	4,438	-	-	1,504,337	1,508,775	(25,241)	1,483,534
Recognition of share-based payments	-	112,000	-	-	-	-	112,000	-	112,000
Balance at 31 December 2012	**124,176,890**	**990,801**	**(464,933)**	**1,105,706**	**-**	**(113,947,030)**	**11,861,434**	**(227,118)**	**11,634,316**
Balance at 30 June 2013	**135,944,302**	**1,045,512**	**-**	**-**	**1,105,706**	**(113,798,508)**	**24,297,012**	**(257,846)**	**24,039,166**
Restatement (Refer to Note 5)	-	-	-	-	-	649,731	649,731	-	649,731
Balance at 1 July 2013	**135,944,302**	**1,045,512**	**-**	**-**	**1,105,706**	**(113,148,777)**	**24,946,743**	**(257,846)**	**24,688,897**
Profit/(loss) for the period	-	-	-	-	-	(2,259,314)	(2,259,314)	(30,139)	(2,289,453)
Total comprehensive income for the period	-	-	-	-	-	(2,259,314)	(2,259,314)	(30,139)	(2,289,453)
Recognition of share-based payments	-	151,518	-	-	-	-	151,518	-	151,518
Balance at 31 December 2013	**135,944,302**	**1,197,030**	**-**	**-**	**1,105,706**	**(115,408,091)**	**22,838,947**	**(287,985)**	**22,550,962**

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed consolidated statement of cash flows
for the half-year ended 31 December 2013

	Half-year ended 31 Dec 2013 $	2012 $
Cash flows from operating activities		
Receipts from customers	48,549,055	32,614,039
Payments to suppliers and employees	(45,725,902)	(32,542,155)
Interest received	665	8,502
Interest paid	(907,000)	(302,654)
Net cash provided by/(used in) operating activities	1,916,818	(222,268)
Cash flows from investing activities		
Payments for plant and equipment	(390,372)	(135,430)
Deferred consideration on acquisition	(135,833)	(2,443,875)
Net cash provided by/(used in) investing activities	(526,205)	(2,579,305)
Cash flows from financing activities		
Net cash provided by financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	1,390,613	(2,801,573)
Cash and cash equivalents at the beginning of the period	(2,154,156)	(3,881,384)
Effect of movement in exchange rates on cash balances	76,532	(17,209)
Cash and cash equivalents at the end of the period	**(687,011)**	**(6,700,166)**

The condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the condensed consolidated financial statements

1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The half-year financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly this report should be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Australian Renewable Fuels Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Basis of preparation

The condensed financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Historical cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies adopted in the presentation of the half-year report are consistent with those adopted and disclosed in the company's 2013 annual financial report for the financial year 30 June 2013, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has retained the presentation and classification of items in the financial statements from one period to the next unless:

i. it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate; or
ii. an Australian Accounting Standard requires a change in presentation.

Going concern

For the six months ended 31 December 2013, ARfuels generated a Net Loss After Tax (NLAT) of $2,289,453 (2012: Net Profit After Tax (NPAT) of $1,479,096). Net cash inflow from operating activities was $1,916,818 (2012: net cash outflow from operating activities of $222,268) for the half-year.

The result is materially below profit generated for the prior corresponding period, but the business remains in a stable financial position. As at 31 December 2013 ARfuels has a Net Asset position of $22,550,962, Current Assets exceeding Current Liabilities by $3,577,778, a small Net Overdraft position of $687,011 and available unused working capital facility of $3,140,309 with no breaches of banking covenants. These are key determinants in confirming a stable financial base for the Group.

In addition, there is strong profit generated from the plant at Barnawartha. The business has reduced its cost structure and anticipates generating monthly profits from January 2014 onwards.

At the date of this report and having considered the above factors, the Directors believe that the consolidated entity will be able to continue as a going concern.

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to their operations and effective for the current half-year.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

- AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'
- AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)' and AASB 2011-11 'Amendments to AASB 119 (2011) arising from Reduced Disclosure Requirements'

The revised Standards and Interpretations adopted in these financial statements have had no effect on the reporting results or financial position.

2. Segment information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance is more specifically focused on three key reportable segments. The Group's reportable segments under AASB 8 are:

i. Western Australia – Biodiesel plant located at Picton
ii. South Australia – Biodiesel plant located at Largs Bay
iii. Victoria – Biodiesel plant located at Barnawartha

The accounting policies of the reportable segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segments for the periods under review:

	Segment revenue Half-year ended 31 Dec		Segment result Half-year ended 31 Dec	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
Continuing operations				
Western Australia	3,296,511	505,993	(1,561,469)	(633,917)
South Australia	4,812,553	163,491	(2,391,284)	(175,694)
Victoria	32,651,762	28,594,913	4,028,182	4,267,409
Total of all segments	**40,760,826**	**29,264,397**	**75,429**	**3,457,798**
Corporate			(1,458,547)	(996,451)
Interest revenue			665	8,502
Finance costs			(907,000)	(990,753)
Profit / (loss) before tax			**(2,289,453)**	**1,479,096**

The revenue reported above represents the revenue generated from external customers.

Segment result represents the profit or loss incurred by each segment without the allocation of corporate costs, interest revenue, finance costs, income tax expense and inter-segment transactions. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

3. Revenue

	Half-year ended 31 Dec 2013 $	2012 $
(a) Revenue from continuing operations	**40,760,826**	**29,264,397**
(b) Finance income		
Bank interest received	**665**	**8,502**
(c) Other revenue		
Gain realised on valuation of derivative	-	1,100,000
Contingent consideration reduction	1,150,000	-
Foreign exchange gains/(losses)	(42,011)	(13,285)
Total other revenue	**1,107,989**	**1,086,715**

4. Finance costs

	Half-year ended 31 Dec 2013 $	2012 $
Other	18,879	11,538
Interest on working capital facility	131,137	291,106
Interest on convertible notes	756,984	688,109
Total finance costs	**907,000**	**990,753**

5. Property, plant and equipment

	Freehold land and buildings $	Plant and equipment at cost $	Total $
Gross carrying amount			
Balance at 1 July 2013	3,899,535	**36,403,635**	**40,303,170**
Additions	-	400,198	400,198
Balance at 31 December 2013	**3,899,535**	**36,803,833**	**40,703,368**
Accumulated depreciation			
Balance at 1 July 2013 (i)	-	**(7,345,239)**	**(7,345,239)**
Depreciation expense	-	(869,553)	(869,553)
Balance at 31 December 2013	**-**	**(8,214,792)**	**(8,214,792)**
Net book value			
As at 30 June 2013 (i)	3,899,535	29,058,396	32,957,931
Balance at 31 December 2013	**3,899,535**	**28,589,041**	**32,488,576**

(i) Management identified a prior period depreciation error in relation to the impairment of the Barnawartha plant. An inconsistency in the calculation of depreciation resulted in an overstatement of depreciation expense for the consolidated Group for the year ending 30 June 2012 of $649,731. The restatement resulted in an increase in net assets of the Consolidated Group as at 30 June 2013 of $649,731 (Company: nil impact) and a reduction in the accumulated losses for the 12 months ending 30 June 2013 (Company: nil impact) of $649,731.

6. Amounts payable on acquisition

On 1 November 2011, the Group acquired Biodiesel Producers Limited (BPL), a biodiesel producer with a nameplate capacity of 60 million litres per annum. Details of the remaining amounts payable on acquisition are as follows:

	31 Dec 2013 $	30 Jun 2013 $
Current:		
Contingent consideration[i]	714,167	699,000
	714,167	699,000
Non current:		
Contingent consideration[i]	-	1,301,000
	714,167	**2,000,000**

[i]The contingent consideration is a further payment to holders of the convertible notes that may be triggered subject to certain criteria being achieved. Earn-out payments can be made to the note holders if the plant at Barnawartha achieves production levels greater than 43.5 million litres per annum in each of the first three years from 1 November 2011. These payments will be 16.33 cents per litre for each litre of production in excess of 43.5 million litres per annum for each year the excess is achieved. Should the average level of production over the first three years from 1 November 2011 exceed 49.3 million litres per annum, the potential earn-out payments period will extend for a further two years, taking the earn out program to five years. Management has assessed the likelihood of the earn-out payments and applied a discount cash flow rate against the quantum of the payout to determine the contingent consideration. This amount will be reviewed on an annual basis.

7. Convertible notes

The convertible notes were issued as part of the consideration for the acquisition of BPL. The convertible notes include a derivative component due to the conversion features of the note. The convertible notes, including the variable share price conversion component and the share options component, are required to be valued at inception, and then at each balance date with any changes to the fair value recorded through profit or loss. The conversion option allows for conversion at $6[i], but if converted on maturity date, the conversion price is the VWAP for 3 months prior to maturity date less 10%. Conversion is for one share at $6[i] and one option at $3[i] for every three shares issued.

	31 Dec 2013 $	30 Jun 2013 $
Derivative component[ii]		
Opening balance	1,470,138	2,570,138
Unrealised loss/(gain) on derivative	-	(1,100,000)
Closing balance	**1,470,138**	**1,470,138**
Debt component		
Opening balance	11,079,862	11,079,862
Capitalised interest	1,366,257	1,366,257
Closing balance	**12,446,119**	**12,446,119**
Disclosed in the financial statements as:		
Other non-current liabilities	13,916,257	13,916,257
	13,916,257	**13,916,257**

[i]The conversion price of the shares and options has been adjusted for the share consolidation of 100:1 completed during the half-year ended 31 December 2013.

[ii]The derivative component of the convertible notes has been recalculated by Management at 31 December 2013 in accordance with AASB 139.

8. Borrowings

At the reporting date, the Group had the following financing facilities in place with HSBC Bank Australia Limited:

	31 Dec 2013 $	30 Jun 2013 $
Total facilities:		
Working capital facility	5,500,000	5,500,000
Guarantee facility	600,000	600,000
	6,100,000	**6,100,000**
Facilities used at reporting date:		
Working capital facility	2,359,691	4,211,911
Guarantee facility	544,000	510,000
	2,903,691	**4,721,911**
Facilities unused at reporting date:		
Working capital facility	3,140,309	1,288,089
Guarantee facility	56,000	90,000
	3,196,309	**1,378,089**

9. Issued capital and contributed equity

Fully paid ordinary shares	31 Dec 2013 $	30 Jun 2013 $
31 December 2013: 41,956,145 (30 June 2013: 4,195,537,997)	135,944,302	135,944,302

9.1 Ordinary shares

Ordinary shares	31 Dec 2013 No.	31 Dec 2013 $	30 Jun 2013 No.	30 Jun 2013 $
Opening balance	4,195,537,997	135,944,302	2,441,300,361	124,176,890
Issue of shares from entitlement offer	-	-	1,144,237,636	8,009,663
Issue of shares from private placements	-	-	610,000,000	4,270,000
Share Consolidation	(4,153,581,852)	-	-	-
Share issue costs	-	-	-	(512,251)
Closing balance	**41,956,145**	**135,944,302**	**4,195,537,997**	**135,944,302**

During the half-year ended 31 December 2013, the Group completed a share consolidation on a 100:1 basis. The consolidation involved the conversion of every hundred fully paid ordinary shares into one fully paid ordinary share.

9.2 Options

Options	31 Dec 2013 No.	31 Dec 2013 $	30 Jun 2013 No.	30 Jun 2013 $
Opening balance	168,190,000	2,151,218	357,340,000	1,984,507
Issue of options	-	-	-	-
Exercise of options	-	-	-	-
Share based payments	-	151,518	15,000,000	166,711
Share Consolidation	(166,508,100)	-	-	-
Options expired/forfeited	(1,900)	-	(204,150,000)	-
Closing balance	**1,680,000**	**2,302,736**	**168,190,000**	**2,151,218**

10. Contingent assets and liabilities

Contingent asset – Picton land sale contingent consideration

In September 2009, the Group sold its land at the Picton site as part of a wider agreement for the development of an industrial development in the area with additional deferred consideration being contingent on the successful sub-division of the land by the purchaser. If formal sub-division of the land is completed, the Group will become the beneficiary of an asset in the form of one of the sub-divided lots or additional proceeds from the sale of the lot. The nature of the deferred consideration is at the option of the purchaser once sub-division has occurred.

11. Financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

11.1 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial liabilities are determined, in particular, the valuation techniques and inputs used.

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs to fair value	Relationship of unobservable inputs to fair value
	31 Dec 2013	30 Jun 2013				
1) Contingent consideration in a business combination	Liabilities - $714,167	Liabilities - $2,000,000	Level 3	Discounted cash flow.	Probability - varied production volumes.	The higher the production volumes the higher the fair value.
2) Derivative component of convertible notes	Liabilities - $1,470,138	Liabilities - $1,470,138	Level 3	Option pricing models.	Probability - likelihood of early repayment.	The higher the likelihood of early repayment the lower the fair value.

If the above unobservable inputs to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amounts of the liabilities would have been $401,487 higher/lower.

11.2 Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

11.3 Reconciliation of Level 3 fair value measurements

31 December 2013	**Derivative component of convertible notes $**	**Contingent consideration on acquisition $**	**Total $**
Opening balance	1,470,138	2,000,000	3,470,138
Disposals/settlements	-	(135,833)	(135,833)
Total gains or losses:			
- in profit or loss	-	(1,150,000)	(1,150,000)
Closing balance	**1,470,138**	**714,167**	**2,184,305**

30 June 2013	**Derivative component of convertible notes $**	**Contingent consideration on acquisition $**	**Total $**
Opening balance	2,570,138	2,000,000	4,570,138
Total gains or losses:			
- in profit or loss	(1,100,000)	-	(1,100,000)
Closing balance	**1,470,138**	**2,000,000**	**3,470,138**

12. Subsequent events

There are no subsequent reportable events that are material in nature or relevant to the condensed consolidated financial statements for the period ended 31 December 2013.

Directors' declaration

The Directors declare that:

i. in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

ii. in the Directors' opinion, the attached financial statements and notes thereto are in compliance with the *Corporations Act 2001*, including compliance with accounting standards and give a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the Directors made pursuant to *section 303(5)* of the *Corporations Act 2001*.

On behalf of the Directors

Philip Garling
Chairman
Melbourne, 27 February 2014

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Independent Auditor's Review Report to the Members of Australian Renewable Fuels Limited

We have reviewed the accompanying half-year financial report of Australian Renewable Fuels Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2013, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 19.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

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 a 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 half-year 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 2013 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 Australian Renewable Fuels Limited, 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.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Australian Renewable Fuels Limited, would be in the same terms if given to the directors as at the time of this auditor's review 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 half-year financial report of Australian Renewable Fuels Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Sanders

Ian Sanders
Partner
Chartered Accountants
Melbourne, 27 February 2014