Interim Financial Report

For the half-year ended 31 December 2014

Australian Renewable Fuels Limited
ABN 66 096 782 188

Corporate information

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www.arfuels.com.au

Contents

Appendix 4D

For the half-year ended 31 December 2014
Previous corresponding period: half-year ended 31 December 2013

Results for announcement to the market

	31 Dec 2014 $A'000's	31 Dec 2013 $A'000's	Up/Down	% Movement
Revenue from ordinary activities	27,046	40,761	Down	-34%
Profit/(loss) from ordinary activities after tax attributable to members	315	(2,259)	Up	114%
Net profit/(loss) for the period attributable to members	315	(2,259)	Up	114%

No interim dividends have been declared for the half-year ended 31 December 2014.

Net tangible asset backing

	31 Dec 2014	31 Dec 2013
Net tangible assets per ordinary security	47 cents per share	54 cents per share

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 2014 half-year financial report.

This report is based on the consolidated 31 December 2014 half-year financial statements which have been reviewed by Deloitte with the independent auditor's report included in the 31 December 2014 half-year financial report.

Signed

Alan Fisher
Chairman
Melbourne, 26 February 2015

Directors' report

Directors' report

The Directors of Australian Renewable Fuels Limited (ARfuels) present the financial report of the Company for the half-year ended 31 December 2014.

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

Name	Office
Alan Fisher	Chairman, Non-Executive Director (appointed 28 August 2014)
Andrew White	Managing Director
Michael Costello AO	Non-Executive Director
Deborah Page AM	Non-Executive Director
Philip Garling	Chairman, Non-Executive Director (resigned 29 August 2014)
Michael Iwaniw	Non-Executive Director (resigned 29 August 2014)
Julien Playoust	Non-Executive Director (resigned 28 October 2014)

As previously advised, several changes were made to the composition of the Board during the period. The number of directors was reduced along with the remuneration of the Board. This was in accordance with a general review of cost reduction across the company whilst retaining an appropriate focus on corporate governance and control.

General overview

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

- A net profit after tax of $0.3 million consisting of:
  - Barnawartha plant profit of $4.4m;
  - Picton plant loss of $0.9m;
  - Largs Bay plant loss of $0.4m; and
  - Corporate and finance costs of $2.8m.
- Revenue from ordinary activities decreased by $13.7m to $27.0m over the prior corresponding half-year period, this represents a 34% decrease;
- Total net cash generation of $1.1m for the period; and
- Over 23 million litres of biodiesel was produced for the six month period, down from 25 million litres for the prior corresponding half-year period.

The Barnawartha plant continues to drive strong sales and profit into the business and this provides a sound platform for the future. Our focus will remain on maximising profit at the Barnawartha plant.

We have scaled back the resources at the Picton and Largs Bay plants to meet sales demand on an as required basis. Together with reductions in corporate costs these actions have resulted in the business returning to profitable performance in this half year.

We have maintained a continuing dialogue and lobby with the Federal Government in relation to the announced changes to the taxation of biodiesel. The negative impact of these changes has been the subject of various submissions and proposals to Government. We continue to wait for a response on those submissions and are hopeful of a resolution in the coming months.

Financial performance

The result of the Company for the half-year ended 31 December 2014 was a Net Profit After Tax (NPAT) of $315,342 compared to the prior corresponding period Net Loss After Tax (NLAT) of $2,289,453.

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

- Revenue from ordinary activities was down by $13,714,902 to $27,045,924. The prior corresponding period revenue included export sales of $11,444,038. Export sales have not been economically viable this year to date. Revenue also includes the sales of by-products (mainly glycerine).
- Raw materials, costs of consumables and freight decreased by $14,145,342 to $19,918,969. The movement is consistent with the reduction in sales and therefore feedstock and logistics requirements.
- The Picton plant loss of $0.9 million included a one off stock write down of $0.4m.
- Trading margins have been negatively affected by the reduced oil price and hence our selling price for biodiesel. Whilst feedstock prices have also reduced that has not completely offset the selling price reduction. Margins have continued to be within, although at the lower end of, historical trading ranges. The sharp fall in the oil price in January 2015 caused a significant margin squeeze however the price had recovered by early February 2015.
- Direct costs (plant labour, utility costs, repairs and maintenance, tank leasing and insurance) decreased by $2,062,436. The decrease was driven by the Largs Bay and Picton plants not being operational for the full six month period whereas during the prior corresponding period they were fully operational. Commissioning costs and expenses related to fulfilling the two export shipments in the prior period were also incurred and these were significant costs.
- Corporate and administration costs reduced against the corresponding prior year period with savings in headcount, administration and consultant costs. Along with the cessation of the export program for the period, which incurs consulting costs in the USA, the prior year period included legal defence costs in respect to the claim by Global Biofuels Trading Inc. (GBTI), which was discontinued by GBTI.
- Other Revenue is reduced because the prior year period included an unrealised gain from a $1,150,000 adjustment to the Contingent Consideration. In the current period Other Revenue includes a $200,000 Grant from the WA Government in relation to the Picton plant.
- The company delivered positive Net Cash Flow movement for the six months of $1,073,143. This was slightly down from the prior period due to the inclusion in the prior period of the receipt of insurance proceeds of $3,900,000 relating to the Business Interruption claim.
- Capital outlay of $249,032 is primarily on the Barnawartha plant to enhance production capabilities and also includes expenditure for the Head Office relocation to Barnawartha and upgrades to the Staff Amenities.

Operations overview

General and Administration

The May 2014 Federal Budget announcement of the proposed introduction of excise has created a degree of uncertainty for the company. This uncertainty has had a profound and negative affect on the market capitalisation of the company. Without any clarity relating to the exact operation of the excise regime and delays in presenting the legislation to Parliament we are unable to properly quantify the financial effect on the business at this time.

The Directors conducted a review of the business immediately after the Budget Announcement. On 29 July 2014, the Directors released the results of that review to the market. In summary, it was announced that:

- Production at the Largs Bay plant would cease. Options for the Largs Bay site would be explored;
- Production at Picton would continue whilst working to secure sales contracts and distribution facilities;
- Barnawartha to continue production;
- Corporate Head Office would move from Melbourne to the Barnawartha plant; and
- Corporate overhead costs to be reduced.

These decisions have all been implemented during the period ending 31 December 2014. The Board and management believe they have provided the business with the best opportunity to operate profitably in a challenging market affected by legislative uncertainty and a global reduction in oil prices.

Plant performance

For the six months ended 31 December 2014 Barnawartha has manufactured all sales products, underpinned by demand from oil majors and long term domestic clients. Although production overall has reduced from prior period, over 22.1 million litres has been produced by Barnawartha for the half-year which is up from 21.2 million litres for the prior corresponding period. The Largs Bay and Picton plants will now only produce on an as required basis.

Sales and marketing

During the six months ended 31 December 2014 market prices for biodiesel continued to fluctuate in line with crude oil and mineral diesel prices.

ARfuels sold over 23.8 million litres of biodiesel for the six month period ended 31 December 2014 with associated sales revenue of $26,246,041. This compares with sales of $40,036,964 on volumes of 33.8 million litres for the corresponding six month period last financial year which was significantly assisted by export sales.

Domestically our sales efforts continue to be hampered by cheap imports which receive significant subsidies in their country of origin and further Australian Government subsidies in Australia. This double subsidy remains a continued drain on the Australian economy and we urge the Government to remedy this situation. The Government has announced that imports will not receive Australian Government subsidies from 1 July 2015, although that announcement is still to be legislated.

Feedstock

For the six month period ended 31 December 2014 average domestic feedstock prices fluctuated between $682 and $790 per tonne (2013: $833 - $996). Prices for tallow reduced as the demand from Asia reduced. The demand for Australian tallow by manufacturers based in Singapore was significantly lower during the second quarter driven by plant shutdowns.

Our underlying feedstock strategy is to continue to seek low cost and stable supply alternatives. We continue to investigate feedstock alternatives with a focus on price, sustainability, consistency of supply and reliability of delivery. Asia remains a 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.
- The production of biodiesel may be curtailed, delayed or cancelled as a result of mechanical difficulties, human error, equipment failure and feedstock delivery problems.

- 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.

Financial management

- ARfuels is exposed to positive and negative movements in commodity prices and in the Australian dollar. This exposure applies to the sales and purchases of the business. Policies and processes are in place to mitigate the risk ARfuels has in regards to commodity pricing and currency exposure in particular. ARfuels has a limited ability to apply hedging strategies to protect margins and cash flow.
- ARfuels has an ongoing economic reliance on the periodic use of trading debt facilities. ARfuels has an appropriate level of bank working capital facilities in place and ensures its continuity by trading within all required bank covenants and by maintaining constant dialogue with its banking partner.

Fuel tax excise

- ARfuels cannot control Federal Government Policy decisions. In the 2014 Federal Government Budget it was announced that biodiesel would commence to be subject to excise from 1 July 2016 at 10% of the full excise rate increasing by 10% per annum and capped at 50% of the fuel excise amount (currently 38.9 cpl). The Board and management are in direct discussions with the Government and Members of Parliament regarding the proposed legislation and the negative consequences for the biofuels industry.

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 surrounding risk control on an ongoing basis. The Audit and Risk Committee continue to monitor management's performance of assessing and controlling identified risks.

Business strategies and prospects

The continuing uncertainty related to the Federal Government's proposed changes to the excise regime mean that production out of the Picton and Largs Bay plants will remain suspended. These plants remain on standby until this matter is resolved. We have staffing levels in place that will enable existing sales orders and contracts 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 sales and profitable performance in the business, subject to prevailing market conditions.

The relocation of head office to Barnawartha along with a number of other cost saving initiatives were completed during the half year. Some of these cost reductions are reflected in these financial results as well as some one-off costs associated with those activities. The Board and management are confident that the operating cost structure of the business has been materially reduced and the full effect of those reductions will be realised in the 2016 financial year.

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

Alan Fisher
Chairman
Melbourne, 26 February 2015

Auditor's independence declaration

Deloitte.

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The Board of Directors
Australian Renewable Fuels Limited
158 Plemings Road
BARNAWARTHA VIC 3688

26 February 2015

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 2014, 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

Ryan Hansen
Partner
Chartered Accountant

Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2014

	Note	Half-year ended 31 Dec 2014 $	2013 $
Revenue from operations	3	27,045,924	40,760,826
Cost of goods sold		(19,918,969)	(34,064,311)
Gross profit		7,126,955	6,696,515
Direct costs		(3,536,911)	(5,599,347)
Corporate and administration expenses		(733,611)	(1,123,910)
Staff costs		(1,428,704)	(1,573,683)
Other revenue	3	289,607	1,107,989
Finance income	3	59	665
Depreciation and amortisation expenses		(590,747)	(890,682)
Finance costs	4	(811,306)	(907,000)
Profit/(loss) before tax		315,342	(2,289,453)
Income tax (expense)		-	-
Profit/(loss) for the period		**315,342**	**(2,289,453)**
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		-	-
Reclassification adjustments relating to foreign operations disposed of in the year		-	-
		-	-
Other comprehensive income for the year net of income tax		-	-
Total comprehensive income for the year		**315,342**	**(2,289,453)**
Profit for the year attributable to:			
Owners of the parent		315,513	(2,259,314)
Non-controlling interests		(171)	(30,139)
		315,342	(2,289,453)
Total comprehensive income attributable to:			
Owners of the parent		315,513	(2,259,314)
Non-controlling interests		(171)	(30,139)
		315,342	(2,289,453)
Earnings per share			
From continuing operations:			
Basic (cents per share)		0.80	(1.40)
Diluted (cents per share)		0.90	(1.40)

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 2014

	Note	31 Dec 2014 $	30 Jun 2014 $
Current assets			
Cash and cash equivalents		2,086,459	953,013
Trade and other receivables		2,698,316	2,488,451
Inventories		4,460,962	6,207,170
Other		616,721	1,094,687
Total current assets		**9,862,458**	**10,743,321**
Non-current assets			
Property, plant and equipment	5	28,451,130	28,764,216
Other		573,941	595,070
Total non-current assets		**29,025,071**	**29,359,286**
Total assets		**38,887,529**	**40,102,607**
Current liabilities			
Bank working capital facilities	7	-	-
Trade and other payables		4,686,645	6,247,334
Provisions		249,760	288,575
Total current liabilities		**4,936,405**	**6,535,909**
Non-current liabilities			
Provisions		294,581	254,141
Convertible notes	6	13,916,257	13,916,257
Total non-current liabilities		**14,210,838**	**14,170,398**
Total liabilities		**19,147,243**	**20,706,307**
Net assets		**19,740,286**	**19,396,300**
Equity			
Issued capital	8	135,944,302	135,944,302
Reserves		2,468,855	2,440,211
Accumulated losses		(118,365,213)	(118,680,726)
Equity attributable to owners of the company		20,047,944	19,703,787
Non-controlling interests		(307,658)	(307,487)
Total equity		**19,740,286**	**19,396,300**

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 2014

	Issued capital $	Employee share option reserve $	Other reserve $	Accumulated profits/(losses) $	Attributable to owners of the parent $	Non-controlling interests $	Total $
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**
Balance at 1 July 2014	**135,944,302**	**1,334,505**	**1,105,706**	**(118,680,726)**	**19,703,787**	**(307,487)**	**19,396,300**
Profit/(loss) for the period	-	-	-	315,513	315,513	(171)	315,342
Total comprehensive income for the period	-	-	-	315,513	315,513	(171)	315,342
Recognition of share-based payments	-	28,644	-	-	28,644	-	28,644
Balance at 31 December 2014	**135,944,302**	**1,363,149**	**1,105,706**	**(118,365,213)**	**20,047,944**	**(307,658)**	**19,740,286**

Condensed consolidated statement of cash flows
for the half-year ended 31 December 2014

	Half-year ended 31 Dec 2014 $	Half-year ended 31 Dec 2013 $
Cash flows from operating activities		
Receipts from customers	29,480,161	48,549,055
Payments to suppliers and employees	(27,369,044)	(45,725,902)
Interest received	59	665
Interest paid	(811,306)	(907,000)
Net cash provided by/(used in) operating activities	1,299,870	1,916,818
Cash flows from investing activities		
Payments for plant and equipment	(226,727)	(390,372)
Deferred consideration on acquisition	-	(135,833)
Net cash provided by/(used in) investing activities	(226,727)	(526,205)
Cash flows from financing activities		
Net cash provided by financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	1,073,143	1,390,613
Cash and cash equivalents at the beginning of the period	953,013	(2,154,156)
Effect of movement in exchange rates on cash balances	60,303	76,532
Cash and cash equivalents at the end of the period	**2,086,459**	**(687,011)**

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 2014 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 2014 annual financial report for the financial year 30 June 2014, 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 2014, ARfuels generated a Net Profit After Tax (NPAT) of $315,342 (2013: Net Loss After Tax (NLAT) of $2,289,453). Net cash inflow from operating activities was $1,299,870 (2013: net cash inflow from operating activities of $1,916,818) for the half-year.

This result is a turn around from the net loss generated for the prior corresponding period. The business continues in a stable financial position. As at 31 December 2014 ARfuels had a Net Asset position of $19,740,286, Current Assets exceeding Current Liabilities by $4,926,053 and available unused working capital facility of $5,500,000 with no breaches of banking covenants. These are key determinants in confirming a stable financial base for the Group.

The Barnawartha plant continues to generate a strong profit. The group generated a monthly profit from July to November 2014 however the declining world oil price in December and an inventory write down for stock held at the Picton plant impacted on the Groups December result.

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 1031 'Materiality'

- AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'
- AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'
- AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'

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**	
	2014	**2013**	**2014**	**2013**
	$	**$**	**$**	**$**
Continuing operations				
Western Australia	28,550	3,296,511	(881,524)	(1,561,469)
South Australia	550,213	4,812,553	(398,405)	(2,391,284)
Victoria	26,467,161	32,651,762	4,463,405	4,028,182
Total of all segments	**27,045,924**	**40,760,826**	**3,183,476**	**75,429**
Corporate			(2,056,887)	(1,458,547)
Interest revenue			59	665
Finance costs			(811,306)	(907,000)
Profit / (loss) before tax			**315,342**	**(2,289,453)**

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 2014 $	2013 $
(a) Revenue from continuing operations	**27,045,924**	**40,760,826**
(b) Finance income		
Bank interest received	**59**	**665**
(c) Other revenue		
Grant Income	200,000	-
Contingent consideration reduction	-	1,150,000
Foreign exchange gains/(losses)	89,607	(42,011)
Total other revenue	**289,607**	**1,107,989**

4. Finance costs

	Half-year ended 31 Dec 2014 $	2013 $
Other	-	18,879
Interest on working capital facility	16,474	131,137
Interest on convertible notes	794,832	756,984
Total finance costs	**811,306**	**907,000**

5. Property, plant and equipment

	Freehold land and buildings $	Plant and equipment at cost $	Total $
Gross carrying amount			
Balance at 1 July 2014	3,899,535	**37,590,712**	**41,490,247**
Additions	-	256,532	256,532
Balance at 31 December 2014	**3,899,535**	**37,847,244**	**41,746,779**
Accumulated depreciation			
Balance at 1 July 2014	-	**(12,726,031)**	**(12,726,031)**
Depreciation expense	-	(569,618)	(569,618)
Balance at 31 December 2014	**-**	**(13,295,649)**	**(13,295,649)**
Net book value			
As at 30 June 2014	3,899,535	24,864,681	28,764,216
Balance at 31 December 2014	**3,899,535**	**24,551,595**	**28,451,130**

As disclosed in the 30 June 2014 financial report the carrying amounts of the assets of the Group remain subject to impairment risk. The Largs Bay and Picton CGU’s are carried at their orderly liquidation value as determined at 30 June 2014.

The Victorian CGU's carrying value remains sensitive to the impact of excise legislation. Should the proposals contained in the 2014 Federal Budget be enacted as announced, this would result in a material impairment of the Victorian CGU. That impairment amount could be between $14 million and $20 million, depending on sales and margin assumptions. Whilst the recoverable amount exceeds the carrying amount for the Victorian CGU the recent reduction in global oil prices (partially offset by the weakening of the AUD against the USD) has decreased the expected margins but not to an extent which results in an impairment of the assets.

6. 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, but if converted on maturity date, the conversion price is the Volume Weighted Average Price for 3 months prior to maturity date less 10%. Conversion is for one share at $6 and one option at $3 for every three shares issued.

	31 Dec 2014 $	30 Jun 2014 $
Derivative component[i]		
Opening balance	1,470,138	1,470,138
Unrealised loss/(gain) on derivative	-	-
Closing balance	**1,470,138**	**1,470,138**
Debt component		
Opening balance	12,446,119	12,446,119
Capitalised interest	-	
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 derivative component of the convertible notes has been recalculated by management at 31 December 2014 in accordance with AASB 139.

7. Borrowings

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

	31 Dec 2014 $	30 Jun 2014 $
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	-	-
Guarantee facility	595,000	544,000
	595,000	**544,000**
Facilities unused at reporting date:		
Working capital facility	5,500,000	5,500,000
Guarantee facility	5,000	56,000
	5,505,000	**5,556,000**

8. Issued capital and contributed equity

Fully paid ordinary shares	31 Dec 2014 $	30 Jun 2014 $
31 December 2014: 41,956,145 (30 June 2014: 41,956,145)	135,944,302	135,944,302

8.1 Ordinary shares

Ordinary shares	No.	31 Dec 2014 $	No.	30 Jun 2014 $
Opening balance	41,956,145	135,944,302	41,956,145	135,944,302
Closing balance	**41,956,145**	**135,944,302**	**41,956,145**	**135,944,302**

8.2 Options

Options	No.	31 Dec 2014 $	No.	30 Jun 2014 $
Opening balance	1,605,000	2,440,211	168,190,000	2,151,218
Share based payments	-	28,644	-	288,993
Share Consolidation	-	-	(166,508,100)	-
Options expired/forfeited	-	-	(76,900)	-
Closing balance	**1,605,000**	**2,468,855**	**1,605,000**	**2,440,211**

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. 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 complex 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.

10. Financial instruments

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

10.1 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 31 Dec 2014	Fair value as at 30 Jun 2014	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs to fair value	Relationship of unobservable inputs to fair value
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.

10.2 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.

10.3 Reconciliation of Level 3 fair value measurements

31 December 2014	Derivative component of convertible notes $	Contingent consideration on acquisition $	Total $
Opening balance 1 July 2014	1,470,138	-	1,470,138
Disposals/settlements	-	-	-
Total gains or losses:			
- in profit or loss	-	-	-
Closing balance	**1,470,138**	**-**	**1,470,138**

30 June 2014	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	-	(1,864,167)	(1,864,167)
Closing balance	**1,470,138**	**-**	**1,470,138**

11. 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 2014.

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

Alan Fisher
Chairman
Melbourne, 26 February 2015

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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 2014, 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 2014 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.

Deloitte.

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 2014 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

Ryan Hansen
Partner
Chartered Accountants
Melbourne, 26 February 2015