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**Manager
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FIRST QUARTERLY UPDATE

Sterling Biofuels International Limited listed on the Australian Stock Exchange on 25 September 2006. Sterling is building a 100,000 tonne per annum biodiesel plant in the Malaysian state of Sabah.

While in its early stages, construction of the plant is progressing as planned and Sterling is on track to commence commercial operations in July 2007.

Sterling aims to be a highly efficient producer of quality biodiesel. It has secured 100% of its feedstock requirements and an offtake for 100% of production.

Attached is the Company's First Quarterly Update. The update is also available on the Company's website: www.sterlingbiofuels.com

Yours sincerely

Tony Walsh
Company Secretary
Sterling Biofuels International Limited



FIRST QUARTERLY UPDATE

Sterling Biofuels

Project Highlights

- **100,000tpa Biodiesel Plant** to be constructed on company owned land in **Sabah**, Malaysia (10 acres)
- Commercial operations from **1 July 2007**
- Process technology from **Desmet** for **fixed price**
- 100% feedstock supply with established refinery **LDEO**
- 100% offtake with international energy trader **Masefield**
- **Manufacturing licence** and **5 year pioneer tax status** in place
- **Experienced management and executive team** with particular experience in Palm Oil industry



Location



An Aerial View

Plant Site

Bulk Handling

Feedstock Supplier



Proposed Processing Plant



**LAND FOR EXPANSION
5 ACRES**



Sterling Biofuels

Construction Progress

- Plant layout & pre-engineering completed
- Biodiesel Production Plant – Desmet Technology
 - Progressing **in line with timeframes & fixed sum contract**
 - No variations in cost anticipated
 - First Desmet plant in Malaysia recently commissioned
- Balance of Plant – Ikatan
 - Ikatan have possession of site and progressing to start foundation works **within projected time schedules and contract costs**
- On track for commercial operations from 1 July 2007



Construction Milestones

Milestone	Target Date
Pre-Engineering	Completed
Mobilisation & Construction	Commenced
Mechanical Completion	April 2007
Commissioning	May 2007
Commercial Production	July 2007



Market Outlook - Biodiesel

- Legislative changes in key German market mandating a **compulsory 5% blend** (by volume) from 1 January 2007 will underpin demand
- Review of EU Biofuels Directive by December 2006 expected to see introduction of range of actions to further stimulate biodiesel demand
- Continuing **disconnect** between oil price and biodiesel price – oil price fallen approx. 22% whilst biodiesel price has fallen only 3.3%
- Palm-based biodiesel producers (such as Sterling) enjoy a significant **cost advantage** over European producers using rapeseed oil - Frost & Sullivan estimates this cost advantage at USD300 per tonne levels



Market Outlook - Feedstock

- Sterling plant strategically located in heart of Malaysian palm oil country to ensure **easy access and availability** of feedstock – Malaysia and Indonesia are world's largest producers of palm oil
- Sterling has 3 year contract for supply of 100% feedstock requirements – Palm Olein preferred for its **premium quality**
- Current spot price for Palm Olein at RM1,672 (A\$608) per tonne **compares favourably** with assumed feedstock price of RM1,750 (A\$636) per tonne



Business Model Remains Sound

- Sterling aims to be **highly efficient** producer of **quality** biodiesel
- Malaysian base provides **cost, logistical & tax** advantages as well as proximity to **quality feedstock**
- Unique offtake agreement provides basis for **freight optimisation** and developing **hedging** strategies to secure advantageous price mechanisms
- Exclusive arrangement with offtaker also provides basis for marketing and distributing biodiesel sourced from other producers in Malaysia - ongoing development of such sourced biodiesel sales provides **growth** opportunities



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