



5 September 2007

ASX ANNOUNCEMENT

**STERLING BIOFUELS TO ENHANCE CURRENT OPERATIONS
WITH UPSTREAM ACTIVITY PARTICIPATION**

Further to recent announcements made to the market in relation to its feedstock management strategy, Sterling Biofuels International Limited (“SBI” or the “Company”) wishes to provide further information in relation to its proposed participation in various upstream activities within the palm oil and biodiesel sectors.

In recent times the Company has been in the process of assessing the avenues available to it to better manage its feedstock requirements and protect the Company against adverse spikes in the price of its primary feedstock, palm olein and its variants. This process commenced with the successful variation of its feedstock supply contract with LDEO as announced to the market on 31 July 2007.

Over the last 12 months, the palm biodiesel industry has experienced a reduction in its actual and forecast operating margins primarily as a result of an increase in feedstock prices. In contrast to this, biodiesel sale prices have remained fairly constant: refer Table 1.

Table 1:

	Aug 2006 (time of prospectus)	Aug 2007
Price per tonne		
Biodiesel Germany	USD950-1,000	USD931-1,017

Table 2 illustrates the shift within the value chain experienced in the palm oil and biodiesel sectors over the last 12 months. The analysis below outlines that over the last twelve months, a number of sectors within the palm oil/biodiesel value chain have increased their respective profit share, principally the palm oil estates.

CHART ON VALUE CHAIN ANALYSIS

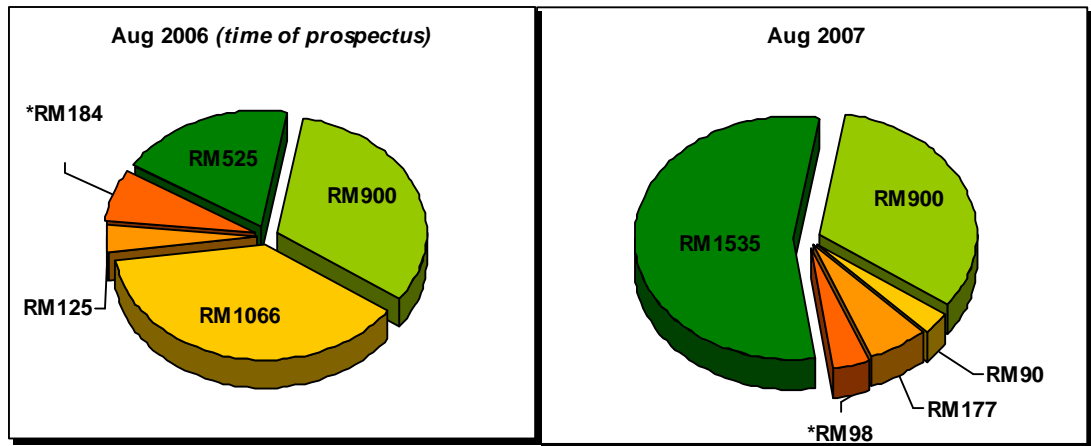
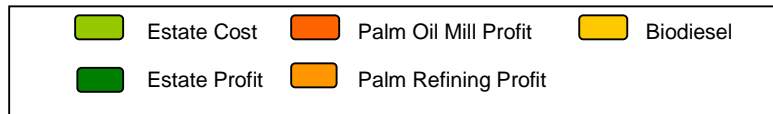


Table 2

*Excludes extraction gains of CPO & kernel and timing difference between manufacture of CPO and refined RBD palm



Notwithstanding that such movements within specific sectors in the palm/biodiesel industry may be of a temporary nature, the Company has resolved to pursue, as an enhancement to its biodiesel production and sales strategy, the participation and investment in certain upstream sectors within the related value chain.

The participation by Sterling in these sectors will allow the Company to move confidently forward with its biodiesel business with the knowledge that it is partly insuring itself against future adverse swings within the palm oil/biodiesel value chain.

Group Managing Director, C.R.S. Paragash stated that “the participation and investment by the Company in various upstream activities within the industry value chain is a logical and complementary extension to our business. If successfully executed this enhancement to the strategy will diversify the Company’s revenue and earnings base across a number of related sectors in the palm based industry.”

Based on the research and analysis performed, the Company is of the view that, when taken as a whole, there has been little or no value lost from the overall value chain but rather a reallocation of operating margins within the value chain itself. Accordingly, the participation by the Company in a number of the sectors within this value chain should see the Company move toward its objective of stabilizing and improving its overall operating margins.



As outlined in its IPO prospectus the Company's executive management team is highly experienced and credentialed in the various sectors within the palm oil industry. The decision by the Company to pursue these upstream opportunities has been assisted by its ability to leverage this vast experience into the management of the proposed upstream activities.

The Company is currently pursuing a number of initiatives involving its potential participation in different sectors within the palm oil/biodiesel value chain. If successfully concluded, further information in relation to these initiatives, including details of the associated capital commitments, will be released.

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