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25 October 2010
ASX ANNOUNCEMENT

Annual Report to Shareholders

Mission NewEnergy Limited is pleased to present the 2010 Annual Report.

Pursuant to ASX Listing Rule 4.10.12 the company wishes to advise that the share registry contact details are as follows;

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Mission NewEnergy Limited
One Mission : One Energy : NewEnergy



Annual Report **2010**







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OUR MISSION AND VISION

VISION

Enriching lives by changing the way the world is powered.



MISSION

Creating an integrated world-class provider of renewable energy using innovative processes, best-in-class people and sustainable supply chain to deliver superior value to our stakeholders.

OUR CORE VALUES... THE T.I.E.S. THAT BIND US

TEAMWORK

We trust, respect and support each other to achieve corporate objectives without self-interest.

INTEGRITY

We are committed to act in an ethical, honest, fair and transparent manner.

ENTREPRENEURIAL

We encourage calculated risk taking, over-delivering, a bias for action and creating win-win relationships.

SOCIALLY RESPONSIBLE

We have an over-riding commitment to safety, community development and the environment.

CHAIRMAN'S OVERVIEW

Dear Valued Shareholder,
On behalf of the Board of Directors, I present to you Mission NewEnergy's annual report for 2010.

It has been another tough year for the industry. Production of biodiesel all over the world has been almost at a standstill given the high commodity prices and legislative issues introduced in the United States and soon to be introduced in Europe. The fifth annual report of our company reveals the impact of the tough business environment. New accounting requirements have also meant that the company has had to re-evaluate the carrying value of its assets, most notably the 2 biodiesel plants owned by the company in Malaysia. It is a non cash event, although it has the impact of ballooning the company's net operating loss from \$20.5 million to \$93.5 million. The entire amount could be reversed sometime in the future if the board is convinced that the carrying value of the assets has been restored.

In spite of the challenges faced by the industry and the business, Mission remains focussed; with its strategy and roll out of action plans to become the lowest cost producer of biodiesel in the world. I highlight some positive actions that will support the business:

- Successfully negotiating and securing a 10 year sales contract with Valero Energy Corporation, the largest, independent fuel refiner and distributor in North America, estimated at over USD 3.5 billion.



CHAIRMAN'S OVERVIEW (CONT'D)

- Focusing on enhancing feedstock delivery from our Jatropha operations and also streamlining acreage and agronomy practices to maximise yields. During the year, Mission shipped its maiden consignment of crude Jatropha oil to its refineries in Malaysia.
- Achieving ISO 9001:2008 certification reflecting the company's dedication to world-class management systems and processes.
- Active involvement and participation in sustainability objectives resulting in Mission being invited to sit on the Board of the International Sustainability and Carbon Certification which today remains as the only certification recognised by the German government.
- Refinery operations delivering above spec biodiesel to the European market and the successful commissioning of our 2nd Axens esterification H 250,000 tpa biodiesel refinery.

Corporate Governance

I am pleased to state that the Board, through the work of its sub-committees, has continued to ensure compliance with ASX Principles of Good Corporate Governance and Best Practice Recommendations.

It is a privilege to be an integral part of the Board and being part of the team dedicated to delivering within a global environment. This drives value to the shareholders especially as renewable energy solutions gain importance and momentum on a global scale to address the environmental, social and economic issues that continue to descend upon us. We are at the forefront of the effort to positively affect our world and I am very confident that Mission will become a leader in this industry.

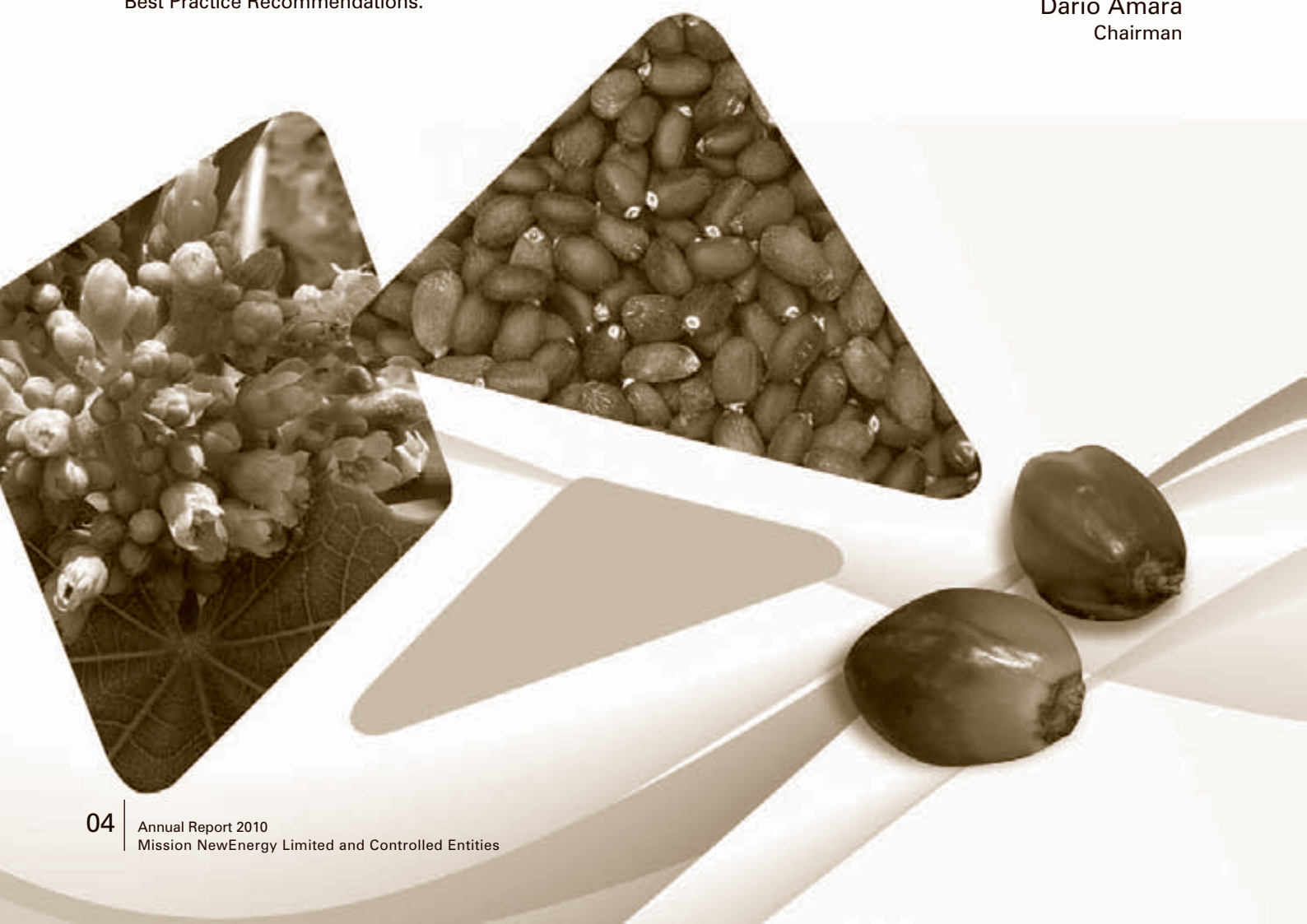
Once again, I would like to express my sincere thanks to all our valued employees and management and fellow directors for outstanding contributions, support and guidance. We certainly recognize the hard work and commitment that has been demonstrated time and again.

And a special thanks to all our shareholders, business partners and associates for all your support and I do look forward with enthusiasm to a bright future ahead.

Yours sincerely,



Dario Amara
Chairman



MANAGING DIRECTOR'S REPORT

Dear Valued Shareholders,
I am delighted to present Mission's fifth Annual Report to all of you.

We have just completed a very challenging twelve months. As I always say to my colleagues, "in problems, we find opportunities", Mission has tried very hard to overcome many of these problems in our path...one hurdle at a time, to position the company to take advantage of the turnaround in the industry which we believe is imminent.

Reviewing 2010

We entered FY 2010 with well constructed strategies that enabled us to achieve some of the key milestones outlined below so as to ensure that your company is poised to become a reputable global producer of low cost and environmentally compliant biodiesel.

New Business:

In my last AGM address I outlined several strategies that Mission was putting in place for a successful 2009/2010. I had said "Mission's strategy would be to form longer term off-take partnerships where both parties can leverage on their individual strengths to create a mutually beneficial co-existence. Such partnerships could also be strategic... where producers and customers get into 5 to 20 year supply arrangements. However, certain attributes are necessary for this to happen, chief among which is long term access to captive and cheap feedstock ". Many in the industry thought that I was stating the obvious and quickly dismissed the notion that a biodiesel producer could secure a contract longer than a year as was (and still is) the norm in the industry. Some even wondered how we were going to get a contract in the first place when refining spreads were in negative territory.

So it was "surprises galore" when we announced that Mission had entered into a binding five-year (plus another buyer option to extend by 5 years) biodiesel supply agreement with Valero Marketing and Supply Company, a subsidiary of Valero Energy Corporation, a fortune 500 hundred company and one of the largest independent crude-oil refiner and marketer in North America. The agreement was for an annual supply of up to 200,000 tonnes (60 million gallons) of biodiesel per year. Valero also have the right to double that amount to 400,000 tonnes per year. The agreement represented gross revenue potential to Mission of over US\$3.5 billion based on then prevailing market prices.

*Nathan with newly completed
Axens refinery in the background.*

MANAGING DIRECTOR'S REPORT (CONT'D)

Both Valero and Mission were well aware that the introduction of the United States Renewable Fuels Standard 2, which would mandate an increased use of biodiesel in the USA, was imminent. Mission was aware that Valero would be one of the largest parties obligated under the RFS2 to blend biodiesel and would need to purchase biodiesel in excess of what Mission could supply with its existing facility. In addition, Valero acknowledged that Mission is a leader in Jatropha plantations and could be the most affordable long term supplier of biodiesel in the market, thereby creating "a mutually beneficial co-existence".

The RFS2 was implemented by the USA in the middle of 2010. However, when announced, much to everyone's disappointment, the rules only allowed Soy oil, used cooking oil and tallow as eligible feedstock in producing biodiesel for sale in the US while other vegetable oils such as rape seed, palm oil and Jatropha oil had to meet certain environmental and green house gas requirements. At this point in time, the detailed analysis required to demonstrate that Palm and Jatropha will meet these requirements is in progress.

In addition, a key subsidy in the USA, called the Biodiesel blending credit (being US\$1 per gallon), lapsed on 31 December 2009. The extension of this subsidy, although in principle supported by Congress, is being widely debated by the US government, and has at this date still not been formally extended. Therefore, even the soy biodiesel industry in the USA was at a standstill with very little production in 2010.

A determination on Palm is expected by the end of 2010. Mission is hopeful that it will be able to begin supplying Valero shortly after that.

ISO Certification:

I am pleased to say that one of our key refineries, Mission Biotechnologies Sdn Bhd, which operates the 100,000 tpa biodiesel refinery, has received the renowned ISO9001:2008 certification. ISO9001 is by far the world's most established quality framework and achievement of this certification demonstrates the top-class quality of Mission's management systems, processes, operating standards and procedures that are employed. This certification is recognition of dedication to best practices and I can proudly say that Mission is one of only a few biodiesel refiners in the world to have achieved this certification.

Sustainability:

On our target towards sustainable production of biodiesel, our ongoing association with International Sustainability & Carbon Certification (ISCC) will enable us to achieve a first mover advantage to access the 2010 and beyond EU Renewable Energy Directive (RED) governed biofuels market, through full German Government accredited certification under ISCC.

This achievement is also a testimony of Mission's commitment and leadership in delivering sustainable biofuels to the global market. Through active involvement in the development of the ISCC system, another achievement for Mission is the appointment of our company as a member of the ISCC Board.

Refinery:

During the course of the last 12 months, our biodiesel refinery (100,000 tpa) continued to successfully produce and deliver biodiesel for sales contract entered into by Mission. I am very happy to say that all biodiesel delivered met and exceeded the European specifications to which it was required to comply with. Mission operated at 13% production capacity despite a negative commodity spread for biodiesel refining during most of 2010. The refining unit continues to make a positive contribution from biodiesel production and by-product sales. However, the lower than expected volumes due to poor demand fuelled by uncertainties in the requirements for sustainable biodiesel and the unfavourable margins between the input price of CPO and the possible sales prices of biodiesel, prevented sufficient contribution towards covering the refineries overheads.



MANAGING DIRECTOR'S REPORT (CONT'D)



Feedstock:

The year has been a period of consolidation - strengthening our resources within Mission's Indian operations and reviewing and streamlining of the operations in the feedstock business with a focus on yield improvement and receivables collection. To further boost the farming model, Mission had organised its contract farmers in a diverse manner spanning large geographical areas of India. It is extremely encouraging to note that approximately 50% of its acreage is performing to targets and we attribute this to the deep and consistent contact with our contract farmers, further enabled by Mission's proprietary agronomy hardware and software. This, together with focused leadership provides Mission with a very clear understanding of the performance of its contract farming system. Additional positive developments in the Indian sector sees the Indian Government (Ministry of Finance) approving further capital investment by Mission into its Indian feedstock business and to carry on with the original approved activity of being engaged in the contract farming of *Jatropha Curcas* and utilization of the *Jatropha* oil for domestic or export markets.

Commissioning of Mission 2:

Mission recently achieved commissioning of its second 250,000 tpa (approximately 75 million gallons per annum) Axens 2nd Generation biodiesel transesterification refinery. During the performance tests, the plant achieved its nameplate capacity and met all guaranteed performance parameters. The biodiesel produced during the performance test has been evaluated by an internationally renowned external laboratory and the results exceed the European EN14214 specification for Biodiesel. Additionally, a new process capable of producing different esters of biodiesel is being incorporated into Mission's refinery operations. This stand-alone unit will serve both Mission's refineries, and enable Mission to become one of the few biodiesel producers in the Asian region who can meet the Cold Soak Filter Test (CSFT) requirements under the revised ASTM D6751:2009 biodiesel specification.

MANAGING DIRECTOR'S REPORT (CONT'D)

2011 and beyond:

Our efforts in 2011 will focus on several areas:-

1. delivering into the Valero contract,
2. becoming a supplier of choice to the Malaysian oil companies when the Malaysian mandate kicks off in June 2011,
3. becoming one of the select few compliant palm biodiesel suppliers to the EU market,
4. putting in more effort into our plantation activities in India towards achieving the desired yields at the lowest possible cost, and
5. gaining access to working capital facilities. Working capital (or the lack of it) has become a big barrier to entry in this business. Many biodiesel plants that completed construction could not be commissioned and many more who have been in shut down mode will not be able to start up for lack of working capital.

We have developed detailed action plans for each of these strategies and will be steadfast in implementing them. I look forward to update you as we progress through the year.

Conclusion

The company, though embattled, is in a good position to take advantage of the opportunities that are emerging in the market place. We have a substantial contract with a reputable buyer that we can deliver into as soon as the RFS2 rules allow us to do so. We are way ahead in meeting the sustainability requirements that come into force in Germany and EU by year end. We have an unencumbered balance sheet which will provide us access to working capital financing which is proving to be a big barrier to entry and we are working towards a listing on the NASDAQ Global Market which will provide us with a better profile and access to capital.

In closing, once again my heartfelt thanks to colleagues on the board for their invaluable guidance and my sincere appreciation to Mission's dedicated employees who continue to contribute their best during these times. Their grit is certainly an inspiration. To all our investors, my gratitude for your confidence in enabling us to carry out our Mission and to realize our dreams.

Yours sincerely,



Nathan Mahalingam
Group Managing Director



BOARD OF DIRECTORS

Mr Dario Amara

Non-Executive Chairman

Mr Amara is an engineer with extensive business experience gained over 29 years in the Australian and international markets and across the resources and infrastructure sectors.

Prior to co-founding Emerson Stewart in 2005 and for over 16 years, he occupied senior executive roles with major construction and engineering groups. Dario successfully led GRD Minproc as managing director/chief executive and John Holland Asia as chief executive officer. Dario has a record of achievement in establishing, growing and rejuvenating businesses and strategic leadership.

He is currently a non-executive director of Austal and non-executive chairman of Mission New Energy (both ASX listed) and a board member of the Perth International Arts Festival.

Dario has also served as chairman of the West Australian Opera Company and the Art Gallery of Western Australia.

He is a Fellow of the Institution of Engineers Australia.



Datuk Zain Yusuf

Non-Executive Director

Datuk Zain has over 25 years experience in Shell Malaysia. From 1986 to 1988, he was seconded to Shell International, United Kingdom and worked as Marketing Consultant in Shell UK and Shell Caribbean. Upon his return to Malaysia, he was made Marketing Director of Shell Malaysia. He subsequently served on the board of Directors of Shell Group Malaysia as Executive Director, with responsibility over a total of 18 group subsidiaries involved in both the upstream and downstream petrochemical business.

Datuk Zain is currently chairman of the Malaysian Australia Business Council and serves as a director of Airod Sdn Bhd , NADI Bhd, Malacca Securities Sdn Bhd, Faber Group Bhd, and as chairman of Confoil (Malaysia) Bhd, a Malaysian - Australian joint venture company in Malaysia.



Mr Nathan Mahalingam

Managing Director

Mr Mahalingam has over 25 years of management experience in banking and finance, heavy industries and infrastructure development. He has successfully implemented numerous start-up manufacturing operations in Malaysia during his tenure of service with a large Malaysian conglomerate. Between 1995 and 2000, he served as project director in the Westport Group, developers of one of Malaysia's largest privatised port and transshipment facility.

Nathan has gained extensive project advisory, corporate finance, mergers and acquisitions experience while running his own boutique corporate advisory practice between 2000 and 2004.



BOARD OF DIRECTORS (CONT'D)



Mr Guy Burnett
Finance Director

Mr Burnett, a Chartered Accountant, has had an impressive career as a Finance Professional in several large corporations.

He first started work as a CA trainee and Audit manager in 1989 after completing a Bachelor of Commerce-Accounting degree at the University of Natal in South Africa. In mid 1996, Mr Burnett joined Umgeni Water, a large corporatized water utility in South Africa, as its Financial Accountant. He was promoted to the position of Financial Controller in mid 1999. He left Umgeni in 2004 to migrate to Western Australia with his family.

Prior to joining the Company Mr Burnett was Manager, Corporate Accounting & Tax with Western Power where he had 27 direct and indirect reports. Prior to this Guy worked as Acting Financial Accountant for Water Corporation on a one year contract and served as a Manager with KPMG for 15 months where he played a key role in assisting KPMG's clients in rolling out their IFRS accounting implementations.

Admiral (Ret) Tan Sri Dato' Seri Mohd Anwar bin Haji Mohd Nor (Tan Sri Anwar)

Independent Non-Executive Director



Tan Sri Anwar made history in April 2005 when he became the first naval chief in the Malaysian Armed Forces (MAF) to ascend to its highest military office, the Chief of Defence Force, commanding a strength of nearly 100,000. With nearly 40 years of military experience with the Royal Malaysian Navy (RMN) and MAF, he has acquired a massive portfolio of achievements.

His outstanding performance extends to the academic arena as well inclusive of stints at the Naval Staff College (Rhode Island, USA), Navigation and Direction Course and Principal Warfare Officers, Course (HMS DRYAD, United Kingdom). He also holds a Master of Science in Engineering Business Management from the University of Warwick, United Kingdom.

Tan Sri Anwar has received numerous commendations, awards and accolades in recognition of his talents, and was bestowed the Panglima Mangku Negara (PMN), which carries the title of 'Tan Sri', by His Majesty the Yang Di-Pertuan Agong (the King of Malaysia). He has also received distinguished medals from foreign governments such as the Ordre National De La Legion D'Honneur from France and the Command of the Legion of Merit from the US.

Amongst the varied positions he holds in the corporate sector, Tan Sri Anwar is also a Corporate Advisor to Sime Darby Bhd, the largest plantation company in the world. He also chairs the board of the Armed Forces Fund Board (LTAT), a multi billion dollar fund with investments in banking, plantations, petrol retail and hotels.

Mr Arun Bhatnagar

Independent Non-Executive Director



Mr Bhatnagar first joined the company as Chairman of our Indian subsidiary, Mission Biofuels India Pvt Ltd in June 2008. Mr. Bhatnagar is currently the chairman of the Government of India owned television and radio broadcaster, Prasar Bharti (likened to the BBC of India).

Prior to this, he was the Secretary of the National Advisory Council, a body tasked with the implementation of the National Common Minimum Program and to provide inputs in the formation of policy and support to the government in its legislative business.

During his long tenure with the government since 1966, Mr Bhatnagar has served as head or in senior positions in various ministries, amongst others the Ministries of Rural Development, Energy, Irrigation and Personnel. He also served as Minister (Economics) in the Indian High Commission in UK.



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DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the year ended 30 June 2010.

1. Corporate governance statement

The Board of Directors of Mission New Energy Limited (Mission) is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

In accordance with the Australian Stock Exchange (ASX) Corporate Governance Council's ("CGC") "Principles of Good Corporate Governance and Best Practice Recommendations" the Corporate Governance Statement must contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed together with the reasons for the departure.

The Company's corporate governance practices were in place throughout the year and are compliant, unless otherwise stated, with the Corporate Governance Council's principles and recommendations, which are noted below.

Principle 1.	Lay solid foundations for management and oversight
Principle 2.	Structure the Board to add value
Principle 3.	Promote ethical and responsible decision making
Principle 4.	Safeguard integrity in financial reporting
Principle 5.	Make timely and balanced disclosure
Principle 6.	Respect the rights of shareholders
Principle 7.	Recognise and manage risk
Principle 8.	Remunerate fairly and responsibly

The Board has developed policies and practices consistent with the ASX Recommendations, with such adjustments as the Board believes are appropriate for the particular circumstances of the Company. Consistent with these policies, a summary of the corporate governance policies and practices adopted by Mission is set out below.

Role of the Board of Directors

The Board of Mission is responsible for setting the Company's strategic direction and providing effective governance over Missions' affairs in conjunction with the overall supervision of the Company's business with the view of maximising shareholder value. The Board's key responsibilities are to:

- chart the direction, strategies and financial objectives for Mission and monitor the implementation of those policies, strategies and financial objectives;
- monitor compliance with regulatory requirements, ethical standards and external commitments;
- appoint, evaluate the performance of, determine the remuneration of, plan for the succession of and, where appropriate, remove the Managing Director; and
- ensure that the Board continues to have the mix of skills and experience necessary to conduct Missions' activities, and that appropriate directors are selected and appointed as required.

The Board has adopted a Board Charter, which sets out in more detail the responsibilities of the Board. The Board Charter sets out the division of responsibility between the Board and management to assist those affected by decisions to better understand the respective accountabilities and contribution to Board and management.

In accordance with Missions' Constitution, the Board delegates responsibility for the day-to-day management of Mission to the Managing Director (subject to any limits of such delegated authority as determined by the Board from time to time). Management as a whole is charged with reporting to the Board on the performance of the Company.

DIRECTORS' REPORT (CONT'D)

1. Corporate governance statement (Cont'd)

Board structure and composition

The Board currently is comprised of 6 directors, of which four are independent non-executive Directors. Details of each director's skills, expertise and background are contained within the directors' report included with the company's annual financial statements.

Independence, in this context, is defined to mean a non-executive Director who is free from any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of Mission. The definition of independence in ASX Recommendation 2.1 is taken into account for this purpose.

A Director cannot hold the position of both Chairman and Managing Director.

Missions' non-executive Directors may not hold office for a continuous period in excess of three years or past the third annual general meeting following their appointment, whichever is longer, without submitting for re-election. Directors are elected or re-elected, as the case may be, by shareholders in a general meeting. Directors may offer themselves for re-election. A Director appointed by the Directors (e.g., to fill a casual vacancy) will hold office only until the conclusion of the next annual general meeting of Mission but is eligible for re-election at that meeting.

Under Missions' Constitution, voting requires a simple majority of the Board. The Chairman does not hold a casting vote.

Board and management effectiveness

Responsibility for the overall direction and management of Mission, its corporate governance and the internal workings of Mission rests with the Board, notwithstanding the delegation of certain functions to the Managing Director and management generally (such delegation effected at all times in accordance with Mission' Constitution and its corporate governance policies).

An evaluation procedure in relation to the Board, individual directors and Company executives was completed during the year. The evaluation of the Board as a whole was facilitated through the use of a questionnaire required to be completed by each Board Member, the results of which were summarised, discussed with the Chairman of the Board and tabled for discussion at a Board Meeting. Similarly each individual director was required to self assess his performance and discuss the results with the Chairman. Individual Directors' performance is evaluated by reference to the Director's contribution to monitoring and assessing management performance in achieving strategies and budgets approved by the Board (among other things).

A similar process for review of committees was undertaken during the 2009/2010 financial year.

To ensure management, as well as Board effectiveness, the Remuneration and Nomination Committee has direct responsibility for evaluating the performance of the Managing Director and other executives. This process involves a formal interview and questionnaire format with results disclosed to the Board.

Internal control, risk management and financial reporting

The Board has overall responsibility for Mission's systems of internal control. These systems are designed to ensure effective and efficient operations, including financial reporting and compliance with laws and regulations, with a view to managing the risk of failure to achieve business objectives. It must be recognised, however, that internal control systems can provide only reasonable and not absolute assurance against the risk of material loss.

DIRECTORS' REPORT (CONT'D)

1. Corporate governance statement (Cont'd)

Internal control, risk management and financial reporting (Cont'd)

The Board reviews the effectiveness of the internal control systems and risk management on an ongoing basis, and monitors risk through the Audit and Risk Management Committee (see the Audit and Risk Management Committee). The Board regularly receives information about the financial position and performance of Mission. For annual and half-yearly accounts released publicly, the Managing Director and the Chief Financial Officer sign-off to the Board:

- the accuracy of the accounts and that they represent a true and fair view, in all material respects, of Missions financial condition and operational results, and have been prepared in accordance with applicable accounting standards and
- that the representations are based on a system of risk management and internal compliance and control relating to financial reporting which implements the policies adopted by the Board, and that those systems are operating efficiently and effectively in all material respects.

In addition, management has reported to the Board on the effectiveness of the company's management of its material business risks.

Internal audit

During the year, the Board employed a permanent internal auditor, who reports directly to the Audit and Risk Committee. The Audit and Risk Committee reviews all material internal audit items and provides guidance where appropriate or required.

The companies risk management policy is included in the Corporate Governance section of the Company's website.

Committees of the Board of Directors

The Board has established two permanent Board committees to assist the Board in the performance of its functions:

- the Audit and Risk Management Committee; and
- the Remuneration and Nomination Committee.

Each committee has a charter, which sets out the Committee's purpose and responsibilities. The Committees are described further below.

The names of the members of the two committees are set out in the directors report contained within the Company's annual financial statements.

Audit and Risk Management Committee

The purpose of the Audit and Risk Management Committee is to provide assistance to the Board in its review of:

- Mission' financial reporting, internal control structure and risk management systems;
- the internal and external audit functions; and
- Mission' compliance with legal and regulatory requirements in relation to the above.

The Audit and Risk Management Committee has specific responsibilities in relation to Missions' financial reporting process; the assessment of accounting, financial and internal controls; the appointment of the external auditor; the assessment of the external audit; the independence of the external auditor; and setting the scope of the external audit.

DIRECTORS' REPORT (CONT'D)

1. Corporate governance statement (Cont'd)

Audit and Risk Management Committee (Cont'd)

The Audit and Risk Management Committee comprises three independent non-executive Directors that have diverse and complementary backgrounds. The Chairman of the Audit and Risk Management Committee must be an independent non-executive Director.

Remuneration and Nomination Committee

The purpose of the Remuneration and Nomination Committee is to discharge the Board's responsibilities relating to the nomination and selection of Directors and the compensation of the Company's executives and Directors.

The key responsibilities of the Remuneration and Nomination Committee are to:

- ensure the establishment and maintenance of a formal and transparent procedure for the selection and appointment of new Directors to the Board; and
- establish transparent and coherent remuneration policies and practices, which will enable Mission to attract, retain and motivate executives and Directors who will create value for shareholders and to fairly and responsibly reward executives.

The Remuneration and Nomination Committee comprises three independent non-executive Directors. The Chairman of the Remuneration and Nomination Committee must be an independent non-executive Director.

The remuneration policy which sets out the terms and conditions for the Managing Director and other senior executives is set out in the Remuneration Report included in the Directors Report contained within the Company's annual report.

Timely and balanced disclosure

Mission is committed to promoting investor confidence and ensuring that shareholders and the market have equal access to information and are provided with timely and balanced disclosure of all material matters concerning the Company. Additionally, Mission recognises its continuous disclosure obligations under the ASX Listing Rules and the Corporations Act. To assist with these matters, the Board has adopted a Continuous Disclosure and Shareholder Communication Policy.

The Continuous Disclosure and Shareholder Communication Policy allocates roles to the Board and management in respect of identifying material information and coordinating disclosure of that information where required by the ASX Listing Rules.

The Policy also identifies authorised company spokespersons and the processes Mission has adopted to communicate effectively with its shareholders. In addition to periodic reporting, Mission will ensure that all relevant information concerning the Company is placed on its website.

Ethical and responsible decision-making

Code of Conduct

The Board has created a framework for managing the Company including internal controls, business risk management processes and appropriate ethical standards.

The Board has adopted practices for maintaining confidence in the Company's integrity including promoting integrity, trust, fairness and honesty in the way employees and Directors conduct themselves and Missions' business, avoiding conflicts of interest and not misusing company resources. A formal Code of Conduct has been adopted for all employees and Directors of Mission.

DIRECTORS' REPORT (CONT'D)

1. Corporate governance statement (Cont'd)

Ethical and responsible decision-making (Cont'd)

Securities Trading Policy

A Securities Trading Policy has been adopted by the Board to set a standard of conduct, which demonstrates Missions' commitment to ensuring awareness of the insider trading laws, and that employees and Directors comply with those laws. The Securities Trading Policy imposes additional share trading restrictions on Directors, the Company Secretary, executives and employees involved in monthly financial accounting processes ("specified persons").

Under the Securities Trading Policy, specified persons are only permitted to buy and sell securities if they do not possess non-public price sensitive information and trading occurs outside of specified restricted periods. These periods are the periods commencing on the first day of the month before the end of the half-year or full year period and ending on the next business day after the announcement of the results for that period. In addition, before a specified person can deal in Mission' securities they must obtain clearance from the appropriate officer, confirming that there is no reason why they cannot trade.

Other Information

Mission New Energy Limited is included on its website (www.missionnewenergy.com) full details of its corporate governance regime.

2. Directors details

The names of directors in office at any time during or since the end of the year are:

Mr Dario Amara	— Chairman (Non-executive)
Qualifications	— Bachelor of Engineering with Distinction (Curtin University of Technology). Fellow of the Institution of Engineers Australia.
Experience	— Mr Amara is an engineer with extensive business experience gained over 30 years in the Australian and international markets and across the resources, energy and infrastructure sectors. Prior to co-founding Emerson Stewart in 2005 and for over 16 years, he occupied senior executive roles with major construction and engineering groups. Dario has a record of achievement in establishing, growing and rejuvenating businesses and strategic leadership, and has served as chairman of the Art Gallery of Western Australia and the West Australian Opera Company and as a board member of the Perth International Arts Festival. Appointed Chairman 31 March 2006. Board member since 31 March 2006.
Interest in Shares and Options	— 200,000 ordinary shares in Mission NewEnergy Limited held indirectly (50,000 to Amara family trust account and 150,000 to Amara Superannuation Fund account).
Special Responsibilities	— Mr Amara is a member of the Audit and Risk Management Committee and Chairman of the Nomination and Remuneration Committee.
Directorships held in other listed entities	— Current director of Austal Limited (since 16 August 2005), Group CEO of Emerson Stewart Group Ltd (since 25 June 2008)

DIRECTORS' REPORT (CONT'D)

2. The names of directors in office at any time during or since the end of the year are (Cont'd):

Datuk Mohamed Zain Bin Mohamed Yusuf	— Director (Non-executive)
Qualifications	— Bachelor of Economics (Hons.) (University of Western Australia)
Experience	— Datuk Zain has over 25 years experience in Shell Malaysia. From 1986 to 1988, he was seconded to Shell International, United Kingdom and worked as Marketing Consultant in Shell UK and Shell Caribbean. Upon his return to Malaysia, he was made Marketing Director of Shell Malaysia. He subsequently served on the board of Directors of Shell Group Malaysia as Executive Director, with responsibility over a total of 18 group subsidiaries involved in both the upstream and downstream petrochemical business. Datuk Zain is immediate past chairman of the Malaysian Australia Business Council and serves as a director of Airod Sdn Bhd , NADI Bhd, Malacca Securities Sdn Bhd, Faber Group Bhd, PJ Bumi Bhd and as chairman of Confoil (Malaysia) Bhd, a Malaysian - Australian joint venture company in Malaysia. Board member since 24 January 2006.
Interest in Shares and Options	— Nil
Special Responsibilities	— Datuk Zain is Chairman of the Audit and Risk Management Committee from 25 June 2009 and a member of the Nomination and Remuneration Committee.
Directorships held in other listed entities	— Director of Faber Group Bhd (since October 2001) and chairman of Malacca Securities Sdn Bhd (since November 2000). Resigned as a director of PJ Bumi Bhd during the year.
<hr/>	
Admiral (Ret) Tan Sri Dato' Sri Mohd Anwar bin Haji Mohd Nor	— Director (Non-executive)
Qualifications	— Master of Science in Engineering Business Management (University of Warwick, U.K)
Experience	— Tan Sri Anwar made history in April 2005 when he became the first naval chief in the Malaysian Armed Forces (MAF) to ascend to its highest military office of the Chief of Defence Force, commanding a strength of nearly 100,000. With nearly 40 years of military experience with the Royal Malaysian Navy (RMN) and MAF, he has acquired a massive portfolio of achievements. His outstanding performance extends to the academic arena as well inclusive of stints at the Naval Staff College (Rhode Island, USA), Navigation and Direction Course and Principal Warfare Officers Course (HMS DRYAD, United Kingdom). He also holds a Master of Science in Engineering Business Management from the University of Warwick, United Kingdom. Tan Sri Anwar has received numerous commendations, awards and accolades in recognition of his talents, and was bestowed the Panglima Mangku Negara (PMN), which carries the title of Tan Sri, by His Majesty the Yang Di-Pertuan Agong (the King of Malaysia). He has also received distinguished medals from foreign governments such as the Ordre National De La Legion D'Honneur from France and the Command of the Legion of Merit from the US. Board member since 25 June 2009.
Interest in Shares and Options	— Nil
Special Responsibilities	— Nil
Directorships held in other listed entities	— South East Asia Advisory Board to Rolls Royce Plc (start date 1 July 2008).

DIRECTORS' REPORT (CONT'D)



2. The names of directors in office at any time during or since the end of the year are (Cont'd):

Mr Arun Bhatnagar	— Director (Non-executive)
Qualifications	— Honours Degree in Economics (St. Stephen's College, Delhi)
Experience	— Up to December 2009, Mr. Bhatnagar was the chairman of the Government of India owned television and radio broadcaster, Prasar Bharti (likened to the BBC of India).

Prior to this, he was the Secretary of the National Advisory Council, a body tasked with the implementation of the National Common Minimum Program and to provide inputs in the formation of policy and support to the government in its legislative business.

During his long tenure with the government since 1966, Mr Bhatnagar has served as head or in senior positions in various ministries, amongst others the Ministries of Rural Development, Energy, Irrigation and Personnel. He also served as Minister (Economics) in the Indian High Commission in UK.

Board member since 25 June 2009.

Interest in Shares and Options	— Nil
Special Responsibilities	— Chairman, Mission Biofuels India Pvt Ltd
Directorships held in other listed entities	— Nil

Mr Nathan Mahalingam	— Managing Director (Executive)
Qualifications	— Bachelor of Economics (Hons.) (University of Malaya) and MBA (Murdoch University, Western Australia).
Experience	— Mr Mahalingam has over 25 years of management experience in banking and finance, heavy industries and infrastructure development. He has successfully implemented numerous start-up manufacturing operations in Malaysia during his tenure of service with a large Malaysian conglomerate. Between 1995 and 2000, he served as project director in the Westport Group, developers of one of Malaysia's largest privatised port and transshipment facility.

Board member since incorporation of the Company (17 November 2005).

Interest in Shares and Options	— 25,647,840 ordinary shares in Mission NewEnergy Limited held personally and indirectly through Mission Equities Sdn Bhd, a company that Mr Mahalingam has a 34% interest in.
Special Responsibilities	— Managing Director of the company.
Directorships held in other listed entities	— Nil

DIRECTORS' REPORT (CONT'D)



2. The names of directors in office at any time during or since the end of the year are (Cont'd):

- Mr Guy Burnett** — Finance Director (Executive)
- Qualifications — Member of the Institute of Chartered Accountants Australia
- Experience — Mr Burnett, a Chartered Accountant, has had an impressive career as a Finance Professional in several large corporations. He first started work as a CA trainee and Audit manager in 1989 after completing a Bachelor of Commerce-Accounting degree at the University of Natal in South Africa. In mid 1996, Mr Burnett joined Umgeni Water, a large corporatized water utility in South Africa, as its Financial Accountant. He was promoted to the position of Financial Controller in mid 1999. He left Umgeni in 2004 to migrate to Western Australia with his family.

Prior to joining the Company Mr Burnett was Manager: Corporate Accounting & Tax with Western Power where he had 27 direct and indirect reports. Prior to this Guy worked as Acting Financial Accountant for Water Corporation on a one year contract and served as a Manager with KPMG where he played a key role in assisting KPMG's clients in rolling out their IFRS accounting implementations.

Board member since 6 April 2009.

- Interest in Shares and Options — 200,000 ordinary shares issued at 30 June 2010 plus eligible for a further 1,000,000 performance shares and 1,750,000 options issued under the group's performance share scheme. See note 30 for further details.
- Special Responsibilities — Finance Director, Director of Mission Biofuels India Pvt Ltd
- Directorships held in other listed entities — Nil

3. Meetings of Directors

During the financial year, 10 meetings of directors (including committees of directors) were held.

Attendances by each director during the year were as follows:

	Directors' Meetings		Committee Meetings			
			Audit & Risk Management Committee		Nomination & Remuneration Committee	
	A	B	A	B	A	B
Mr Dario Amara	6	5	4	4	2	2
Datuk Mohamed Zain Bin Mohamed Yusuf	6	4	4	4	2	2
Tan Sri Dato' Sri Mohd Anwar bin Haji Mohd Nor	6	6	4	4	2	2
Arun Bhatnagar	6	4	4	2	2	2
Mr Nathan Mahalingam	6	6	-	-	-	-
Mr Guy Burnett	6	5	-	-	-	-

A Number eligible to attend

B Number attended

DIRECTORS' REPORT (CONT'D)

4. Insurance premium paid for Directors and Officers

The Company has paid an insurance premium in respect of a contract insuring each of the Directors of the Company named earlier in this report and the executive officers of the Company against liabilities and expenses, to the extent permitted by law, arising from claims made against them in their capacity as Directors and officers of the Company, other than conduct involving a wilful breach of duty in relation to the Company. Due to confidentiality clauses contained in the insurance policy the Limit of Liability and Premium paid has not been disclosed.

5. Company Secretary

The following person's held the joint position of company secretary during the financial year:

Mr Peter Torre
Mr Jerry Monzu

Mr Torre holds a Bachelor of Business, is a Chartered Accountant, a Chartered Secretary and a Member of the Australian Institute of Company Directors. He is the Company Secretary of several ASX Listed Companies and is also a Director of ASX listed Carbine Resources Limited and ORT Limited. Mr Monzu has a Bachelor of Business and is a Certified Practising Accountant, a Fellow of the Taxation Institute of Australia and has had extensive corporate experience at a financial and managerial level in multinational companies.

6. Remuneration Report (Audited)

This report details the nature and amount of remuneration for each director of Mission NewEnergy Limited and for the key management personnel.

Remuneration policy

The remuneration policy of Mission NewEnergy Limited is twofold:

- To create a remuneration structure that will allow Mission NewEnergy to attract, reward and retain qualified Executives and Non-Executive Directors who will lead Mission NewEnergy in achieving its strategic objectives.
- To provide and motivate the Executives and Non-Executive Directors with a balanced and competitive remuneration.

The specific objectives of the Executive Remuneration Policy are as follows:

- To motivate executive management to manage and lead the business successfully and to drive strong long-term organisational growth in line with the Group's strategy and business objectives.
- To drive successful organisational performance by incorporating an annual performance incentive and establish longer-term performance objectives.
- To further drive longer-term organisational performance through an equity-based reward structure.
- To make sure that there is transparency and fairness in executive remuneration policy and practices.
- To deliver a balanced solution addressing all elements of total pay [base-pay, incentive pay (cash and equity) and benefits.

DIRECTORS' REPORT (CONT'D)

6. Remuneration Report (Audited) (Cont'd)

Remuneration policy (Cont'd)

- To make sure appropriate superannuation arrangements are in place for executives.
- To contribute to appropriate attraction and retention strategies for executives.

The specific objectives of the Non-Executive Director remuneration policy are as follows:

- To attract and retain appropriately qualified and experienced directors.
- To remunerate directors fairly having regard to their responsibilities, including providing leadership and guidance to management.
- To build sustainable shareholder value by encouraging a longer-term strategic perspective, by not linking fees to the results of the Mission NewEnergy Group of Companies.

The Board of Mission NewEnergy Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Consolidated Group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the Consolidated Group is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Nomination and Remuneration Committee and approved by the Board after seeking professional advice (when appropriate) from independent external consultants.

All executives are entitled to receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.

The Nomination and Remuneration Committee reviews executive packages annually by reference to the Consolidated Group's performance, executive performance and comparable information from industry sectors.

The directors and executives receive a superannuation guarantee contribution (or equivalent) required by the relevant government authority and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Nomination and Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice will be sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting and is allocated to each non-executive Director based on responsibility, which include the Chairman of the Board, Chairman of the Audit and Risk Committee and Chairman of the Nomination and Remuneration Committee. Fees for non-executive directors are not linked to the performance of the Consolidated Group.

Key Management Personnel

The Company has defined the following classes of people as key management personnel:

- o Non-executive directors
- o Executive directors
- o Management reporting directly to the Managing Director

DIRECTORS' REPORT (CONT'D)

6. Remuneration Report (Audited) (Cont'd)

Details of remuneration for the year ended June 2010

The remuneration for the key management personnel of the consolidated group during the year was as follows:

2010

	Short term		Share Based Options and performance shares \$'000	Post employment Super Contribution \$'000	Total \$'000	Proportion of remuneration performance related %	Value of options and performance shares as a proportion of remuneration %
	Salary \$'000	Non-cash Benefits \$'000					
Directors							
Mr Dario Amara	100	-	-	9	109	-	-
Datuk Zain Yusuf	75	-	-	1	76	-	-
Mr Nathan Mahalingam	344	-	-	4	348	-	-
Admiral (Ret) Tan Sri Dato' Sri Mohd Anwar bin Haji Mohd Nor	50	-	-	1	51	-	-
Mr Arun Bhatnagar	50	10	-	-	60	-	-
Mr Guy Burnett	240	-	403	22	665	61%	61%
Key management personnel							
Kalaiselvan a/l Somasundaram (Refining COO)	87	-	14	-	101	-	-
Subhas Patnaik (COO of Feedstock operations) ¹	47	-	-	-	47	-	-
Mr Abu Bakar Bin Jani (non-executive Director of Mission Biofuels Sdn Bhd)	20	-	-	-	20	-	-
Datuk Azizan Bin Abd Rahman (non-executive Director of Mission Biofuels Sdn Bhd)	20	-	-	-	20	-	-
Mr James Garton (Group Head of Corporate Finance)	240	-	803	22	1,065	75%	75%
TOTAL	1,273	10	1,220	59	2,562	-	-

¹ Mr Patnaik joined Mission on the 17th September 2009.

DIRECTORS' REPORT (CONT'D)



6. Remuneration Report (Audited) (Cont'd)

2009

	Short term		Share Based Options and performance shares	Post employment Super Contribution	Total	Proportion of remuneration performance related	Value of options and performance shares as a proportion of remuneration
	Salary	Non-cash Benefits					
	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
Directors							
Mr Dario Amara	100	-	-	9	109	-	-
Tan Sri Razak Ramli ²	75	-	-	1	76	-	-
Datuk Zain Yusuf	50	-	-	1	51	-	-
Mr Nathan Mahalingam	255	-	-	14	269	-	-
Mr Arvind Bansal ³	-	-	-	-	-	-	-
Admiral (Ret) Tan Sri Dato' Sri Mohd Anwar bin Haji Mohd Nor	-	-	-	-	-	-	-
Mr Arun Bhatnagar ⁴	33	-	-	-	33	-	-
Mr Guy Burnett	185	-	-	16	201	-	-
Key management personnel							
Mr Balakrishnan Papaiah ⁵ (Refining COO)	104	-	-	13	117	-	-
Kalaiselvan a/l Somasundaram (Refining COO) ⁶	14	-	-	-	14	-	-
Mr Abu Bakar Bin Jani (non-executive Director of Mission Biofuels Sdn Bhd)	23	-	-	-	23	-	-
Datuk Azizan Bin Abd Rahman (non-executive Director of Mission Biofuels Sdn Bhd)	23	-	-	-	23	-	-
Mr James Garton ⁷ (Group Head of Corporate Finance)	142	-	183	13	338	54%	54%
TOTAL	1,004	-	183	67	1,254		

² Mr. Tan Sri Razak Ramli resigned on 25/06/2009

³ Mr Bansal was remunerated as an independent contractor and resigned on 24 June 2009. He was paid A\$163,000 for services to 24 June 2009.

⁴ Mr Bhatnagar was appointed to the Board of Mission NewEnergy Ltd on 25 June 2009. His remuneration reflected above is in respect of his capacity as Chairman of Mission Biofuels India PL.

⁵ Mr. Balakrishnan Papaiah resigned on 31/01/2009.

⁶ Mr Kalaiselvan joined Mission on 4/5/09

⁷ Mr Garton was appointed from 15/10/2008

DIRECTORS' REPORT (CONT'D)

6. Remuneration Report (Audited) (Cont'd)

Options and performance shares are issued to directors, executives and senior employees as part of their remuneration.

During the year the following options and performance shares were issued to key executives and individuals who have a strategic impact on the business.

Options

	Balance 1/7/2008	Expired	New issue	Balance 30/6/2009	New issue	Lapsed	Balance 30/6/2010	Vested
Directors								
Mr Dario Amara	1,000,000	(1,000,000)	-	-	-	-	-	-
Tan Sri Razak Ramli	750,000	(750,000)	-	-	-	-	-	-
Datuk Zain Yusuf	500,000	(500,000)	-	-	-	-	-	-
Guy Burnett ⁸	-	-	-	-	1,750,000	-	1,750,000	1,750,000
Executive								
James Garton ⁹	-	-	1,750,000	1,750,000	-	-	1,750,000	1,750,000
Third parties								
For services rendered in 2009 equity raising	-	-	731,492	731,492	-	(365,746)	365,746	365,746
TOTAL	2,250,000	(2,250,000)	2,481,492	2,481,492	1,750,000	(365,746)	3,865,746	3,865,746

Performance Shares

	Balance 1/7/2008	New issue	Balance 30/6/2009	New issue	Exercised	Lapsed	Balance 30/6/2010	Vested and unexercised at 30/6/10
Director								
Guy Burnett – tranche ¹	-	-	-	1,500,000 ¹⁰	(200,000)	(300,000)	1,000,000	200,000
Executives								
James Garton – tranche ¹	-	1,500,000 ¹¹	1,500,000	-	(200,000)	(300,000)	1,000,000	200,000
James Garton – tranche ²	-	-	-	5,000,000 ¹²	-	-	5,000,000	-
Senior employees collectively – tranche ¹	-	1,200,000 ¹³	1,200,000	-	(119,999)	(293,334)	786,667	199,999
Total	-	2,700,000	2,700,000	6,500,000	(519,999)	(893,334)	7,786,667	599,999

DIRECTORS' REPORT (CONT'D)

6. Remuneration Report (Audited) (Cont'd)

Tranche 1 performance criteria

40% of the performance shares vest in equal tranches at 31/12/2009, 30/06/2010 and 31/12/2010 for service, and 60% of the performance shares vest in equal tranches on;

Vesting date	Performance criteria	Actual result	Performance criteria met;
30 June 2010	Positive Group cash generation from operations	Negative cash generation of \$6,902,000	No. Performance shares lapse
30 June 2011	EPS of A\$0.06	N/A – future dated criteria	N/A future dated criteria
30 June 2012	EPS of A\$0.15	N/A – future dated criteria	N/A future dated criteria

⁸ Grant date was 19 October 2009, share price on grant date was 28.5 cents, exercise price is 17 cents, fair value at grant date was 15.94 cents, volatility used was 125.35%, risk free rate used was 4.83%, option expires on 30 June 2011.

⁹ Grant date was 25 June 2009, share price on grant date was 18.5 cents, exercise price is 17 cents, fair value at grant date was 9.68 cents, volatility used was 138.77%, risk free rate used was 4.16%, option expires on 30 June 2011.

¹⁰ Grant date was 19 October 2009, share price on grant date was 28.5 cents, fair value at grant date was 21.37 cents.

¹¹ Grant date was 25 June 2009, share price on grant date was 18.5 cents, fair value at grant date was 13.87 cents.

¹² Grant date was 30 March 2010, share price on grant date was 34.5 cents, fair value at grant date was 25.88 cents.

¹³ Grant date was 25 June 2009, share price on grant date was 18.5 cents, fair value at grant date was 13.87 cents.

Tranche 2 performance criteria

The performance shares vest in equal tranches at 1/7/2010, 31/12/2010 and 1/7/2011 for service.

The intention of the issue of the performance shares is to encourage staff retention and a financial performance culture.

Employment contracts of directors and senior executives

The employment conditions of the Managing Director, Finance Director/Chief Financial Officer and the Head of Corporate Finance are formalised in contracts of employment which the Directors consider to be on reasonable and commercial terms.

The employment agreements contain the following terms and conditions:

- standard leave entitlements; fixed terms of 3 years, with Mission New Energy able to terminate the employment prior to the expiration of the maximum term by giving 2 months notice and a payment equivalent to 12 months salary and the
- employee able to do the same by giving 2 months notice,
- rights of summary dismissal are preserved;
- total remuneration is subject to yearly review, but an increase is not guaranteed;
- no provision for automatic bonus payments;
- no probationary periods, and
- cascading post employment restraints.

All other key personnel are on similar contracts but are not for a fixed term.

DIRECTORS' REPORT (CONT'D)

7. Principal Activities

The principal activities of the consolidated group during the financial year were:

- Operations of the 1st Biodiesel Plant in Malaysia during the financial year,
- Construction and commissioning of the 2nd Biodiesel Plant in Malaysia,
- Feedstock establishment in India,
- Research and development of lingo-cellulosic ethanol.

There were no significant changes in the nature of the principal activities during the financial year.

8. Operating and Financial Review

Summary of results

Revenue for the consolidated group amounted to \$16.5 million (2009: \$55.2 million). Net cash used in operating activities was A\$6.9 million. EBIDTA loss of the consolidated group amounted to \$86.2 million (2009: \$12.5 million loss) and the net loss of the consolidated group, after providing for interest, impairment, depreciation, amortisation and income tax and eliminating minority equity interests amounted to \$93.5 million (2009: \$23.7 million loss).

The high level analysis of the key non-cash transactions in the 2010 financial year below illustrates the cash used in operations by the group in the twelve months to 30 June 2010.

	A\$'000
Net (loss) for the period	(93,479)
Add: Non-cash items	
Depreciation	2,118
Impairment of biological asset	740
Impairment of Property, plant and equipment	73,089
Impairment of trade receivables	4,839
Change in fair value of biological assets	(1,656)
Finance costs (non-cash)	2,293
Change in working capital	5,154
Net cash used in operating activities	<u>(6,902)</u>

9. Review of Operations

Biodiesel Refining

Refining operational and financial performance

During the twelve months to June 2010, the first Biodiesel refinery (100,000 tpa) successfully produced and delivered biodiesel into the sales contract secured by Mission in 2008. All biodiesel sold and delivered in this period met, and exceeded, the European specifications to which it was required to comply with.

Despite a negative commodity spread for biodiesel refining during most of the twelve months, Mission operated its refinery intermittently for the first half of the financial.

The refining unit made a positive contribution from biodiesel production and by-product sales, however the low production volumes, due to negative margins between the input price of CPO and the possible sales prices of Biodiesel, prevented sufficient contribution towards covering the refineries overheads.

DIRECTORS' REPORT (CONT'D)

9. Review of Operations (Cont'd)

Moving forward, Mission was very pleased to have announced the sales off-take agreement with Valero, concluded in December 2009. The contract allows Mission to supply 200,000 tpa of biodiesel for five years, with Valero having the option to extend the contract for a further five years and double the volume to 400,000 tpa. Mission has agreed to supply Valero with all its biodiesel produced from Mission's captive Jatropha feedstock up to the contracted quantity. Jatropha is an in-edible perennial oil seed plant that has been shown to grow on marginal soil without displacing agricultural land used for food supply, making it an ecologically responsible source of fuel oil. Subject to favourable economics and legislation matters being resolved, as Mission's available stock of Jatropha matures to scale, Mission will supply Valero with palm oil based biodiesel.

Under the Valero contract Mission's capacity utilisation is capable of increasing from the current 28% up to 57%.

Mission's second refinery (250,000 tpa)

Mission was pleased to announce in the fourth quarter the commissioning of its second 250,000 tons per annum (approximately 75 million gallons per annum) Axens 2nd Generation biodiesel trans-esterification refinery, adjacent to the 100,000 tpa plan in Kuantan Port, Malaysia, has been completed. During the performance tests, the plant achieved its nameplate capacity and met all guaranteed performance parameters. The biodiesel produced during the performance test has been evaluated by an internationally renowned external laboratory and the results exceed the European EN14214 specification for Biodiesel. Mission is in discussions with its turnkey contractor, KNM Process Systems Sdn Bhd, to finalise the transfer of the plant to Mission. All approvals and licences required to operate the plant have been secured.

Impairment of refinery assets

The Board reviews the carrying value of its refinery assets at each reporting date. Historically, and again at 31 December 2009, the Board was satisfied to carry the value of the refinery assets at their amortised cost (\$66.8 million At 31 December 2009) because the forecast profits to be generated by the refineries exceeded the carrying value. This assessment is based on a number of assumptions including forecast oil yields, commodity prices, and volumes. In addition, the Directors took into account the 5 year Valero sales contract signed in December 2009.

During the second half of the 2010 financial year, the USA introduced its revised Renewable Fuels Standard 2, which legislated, amongst other items, a significant mandate for the use of biodiesel in the USA. This in itself is especially promising for the biofuels industry. However the revised legislation also introduced a requirement for vegetable oil feedstock's, such as soy, rapeseed, palm oil and Jatropha oil to meet certain environmental and green house gas requirements. At this point in time, the detailed analysis required to demonstrate that palm and jatropha will meet these requirements is in progress. In addition, a key subsidy, called the Biodiesel blending credit (being US\$1 per gallon), lapsed on 31 December 2009. The extension of this subsidy, although in principle supported by Congress, is being widely debated by the US government, and has at this date not been formally extended.

In addition, the European Union will introduce, with effect 1 January 2011, legislation that requires all biodiesel to be based on new sustainability criteria (named the Renewable Energy Directive). Currently, there are limited suppliers of palm oil that meet these criteria. However, numerous producers of palm oil are in the process of getting their product certified to be in compliance with the European requirements. Mission's biodiesel refineries are already attested under the ISCC which has been recognised as an approved certification by the German Government.

Despite the significant efforts internationally to address these legal requirements, the Board is required, under the accounting standards, to assess the refining cash generating unit's ability to generate revenue based on existing conditions. The combination of these factors at this point in time forces the Board to provide for an impairment of the refining assets until the legislative hurdles are cleared. This NON CASH accounting write-off is in no way an indication that the plant cannot produce biodiesel under the required specifications. The Board is confident that the significant efforts undertaken by management and the international community will make it possible for the refining assets to be put to productive use in the ensuing financial period; at which time the value of these assets can be reinstated to its useful value at that point in time.

Both plants are in excellent condition and on full operational standby to produce biodiesel as and when required.

DIRECTORS' REPORT (CONT'D)

9. Review of Operations (Cont'd)

Upstream Feedstock Business

After significant growth in acreage during the calendar years 2007 and 2008, the twelve months to June 2010 was a period of consolidation and review of operations in the feedstock business with a focus on receivable collection and delivery of proper agronomy practices. Around 6,416 acres were planted in the twelve months to 30 June 2010 utilising existing saplings available from Mission nurseries. At June 2010 Mission had around 23,000 additional acres signed up with new contract farmers. As the transplanting of saplings can only begin with the onset of the rainy season in India, no new acreage had been planted at 30 June 2010.

As anticipated, not all acreage will reward equally while operating under a contract farming model. Given this inevitability, Mission has organised its contract farmers in a geographically diverse manner spanning a large geographical area of India. Mission employs a continuous review of the condition and success of the contract farming across its acreage, such that it can focus its further efforts in the most productive regions. Considering expected mortality, anticipated deviations in yield performance associated with the wide geographic spread of our feedstock cultivation operations and the nature of contract farming in general, we estimate that we have 170,000 acres of effective acreage, resulting in an expected 170,000 tonnes per year of crude Jatropha oil and 340,000 tonnes per year of seed cake. Mission is extremely encouraged that ~50% of its acreage is performing to targets. Mission attributes this outstanding performance to its deep and consistent contact with its contract farmers.

Wind farm business

The two wind mills owned by the Company of 1.65 MW each, generated and sold under a Power Purchase Agreement 5,855,621 kwh during the twelve months to 30 June 2010. An impairment review of the windmills was undertaken. Revenues generated from these assets were found to be less than expected, thus the carrying value of the windmill assets were written down to their value in use.

10. Financial Position

The Group had a loss for the year ended 30 June 2010 of \$93.5 million after an impairment of \$73.1 million (2009 : \$23.6 million), a current assets less current liability surplus of \$20.7 million (2009 : \$16.8 million) and a net asset deficiency of \$25.4 million (2009 : \$51.0 million surplus) at balance date. The net asset deficiency is as a result of the impairment of refinery assets during the current financial year (refer to note 5a).

The Directors believe that the consolidated group has sufficient financial resources at 30 June 2010 to meet its committed financial liabilities.

The Financial Statements have been prepared on a going concern basis which has been assessed based on detailed cash flow forecasts extending out twelve months from the date of this financial report. The cash flow forecasts from operations are based on the forecast cash flows required to sustain the business, cash on hand at 30 June 2010 and the ongoing receivables collection associated with historic sapling sales. At the date of this report, the Board is exploring an opportunity to defer the payment of capital commitments (refer to note 26) of around A\$6.4 million.

The ability of the Group to continue as a going concern in the ordinary course of business and to achieve the business growth strategies and objectives is dependent upon its ability to collect amounts owing under its receivables, defer the capital commitment relating to the second biodiesel plant, or raise further debt or equity to meet the capital commitments. The debt or equity funding referred to above has not been agreed to at the date of this report.

Notwithstanding the matters mentioned above, the directors believe that the Group will be successful in the matters discussed above and accordingly have prepared the financial report on a going concern basis in the belief that the Group will realise its assets and settle its liabilities and commitments in the normal course of business and for at least the amounts stated in the financial report. However, should the Group not be successful in the matters discussed above, there is significant uncertainty whether the Group would be able to continue as a going concern.

11. Dividends Paid or Recommended

No dividends have been paid or declared for payment.

DIRECTORS' REPORT (CONT'D)

12. Events subsequent to reporting date

Other than the matter mentioned below, there have been no significant subsequent events up until the date of signing this Financial Report.

13. Significant Changes in State of Affairs

There have been no significant changes to the state of affairs up to the date of signing this Financial Report.

14. Future developments, Prospects and Business Strategies

Upon achieving its first commercial scale harvest of Jatropha feedstock, the commissioning of Mission's second biodiesel refinery and the entering into a long term biodiesel sales agreement with major oil refiner, the company is well on its way of realising its business plan of becoming a fully integrated biodiesel producer. Mission now intends to expand its Jatropha footprint, increase the utilisation of its existing refining assets via additional long term sales agreements and expand downstream into biodiesel logistics.

Based on the success of the first Jatropha harvest, Mission looks forward to expanding this business via the planting of new acreage and possibly also through the acquisition of other Jatropha operations. This continued expansion coupled with the maturing of existing Jatropha acreage provides the necessary scale to reduce Mission cost. To further improve Mission's economics Mission continues to improve the realization of value from Jatropha by-products.

Reduction of feedstock cost base through the switch from Palm to Jatropha, increased throughput scale and continued process enhancements at its existing refineries, position Mission well to win additional long term biodiesel off-take agreements and improve the economics of existing long term contracts. Increasing utilization rates and increasing margins, continue to be greatest driver to Mission's near term financial performance.

Mission intends to expand its business through the downstream expansion in the Jatropha business into oil seed crushing, possible expansions in refining facilities in different jurisdictions and into the wholesale storage and logistics of biodiesel. Such expansion allows Mission to capture additional margin by participating throughout the value chain.

15. Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.


16. Non audit services

The Groups auditors did not provide any non-audit services during the year. Refer to Note 10 for details of amounts paid to the groups auditors during the year.

17. The lead auditor's independence declaration

The lead auditor's independence declaration, in accordance with S307C of the Corporations Act 2001 for the year ended 30 June 2010 has been received and can be found on page 30 of the Directors' Report.

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



Nathan Mahalingam
Group Managing Director
Date: 17 September 2010

AUDITOR'S INDEPENDENCE DECLARATION



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Auditor's Independence Declaration To the Directors of Mission NewEnergy Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Mission NewEnergy Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit;
and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in cursive script that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in cursive script that reads "M J Hillgrove".

M J Hillgrove
Director – Audit & Assurance
Perth, 17 September 2010

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CONSOLIDATED GROUP INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 \$'000	2009 \$'000	2008 \$'000
Sales revenue	7	16,189	52,809	27,611
Other income	7	271	2,368	2,322
Total revenue		16,460	55,177	29,933
Cost of sales	8a	(15,021)	(45,709)	(10,964)
Employee benefits expense	8b	(5,307)	(5,117)	(2,694)
Net foreign exchange gains/(losses)		568	622	194
Consultants expenses		(594)	(518)	(1,465)
Hedging cost		(95)	(67)	-
Impairment of trade receivables	13	(4,839)	(8,334)	(1,185)
Impairment of inventories and biological assets		(740)	(2,947)	-
Impairment of assets	5a	(73,089)	-	-
Shareholder expenses		(121)	(106)	(129)
Travel expenses		(886)	(1,109)	(924)
Research and development		(154)	(367)	-
Rental expenses		(271)	(247)	(226)
Other expenses from ordinary activities	8c	(2,091)	(3,729)	(1,042)
Earnings before interest, tax, depreciation and amortisation		(86,180)	(12,451)	11,498
Impairment of loans and investments	34	-	-	(403)
Depreciation and amortisation expenses		(2,118)	(2,469)	(782)
Finance costs	8d	(5,152)	(8,401)	(5,868)
Profit/(loss) before income tax		(93,450)	(23,321)	4,445
Income tax (expense)/benefit	9	(29)	(434)	(161)
Profit (loss) for the year		(93,479)	(23,755)	4,284
Profit/(Loss) attributable to minority equity interests		-	95	(90)
Net (loss)/profit attributable to members of the parent entity		(93,479)	(23,660)	4,194
Basic earnings/(loss) per share (cents)	11	(39.0)	(23.9)	4.527
Diluted earnings/(loss) per share (cents)	11	(39.0)	(23.9)	4.526

The accompanying notes form part of this financial report.

CONSOLIDATED GROUP STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010



	2010	2009	2008
	\$'000	\$'000	\$'000
(Loss)/Profit for the period	(93,479)	(23,660)	4,194
Other comprehensive income			
Exchange differences on translating foreign operations	286	9,806	(7,344)
Income tax relating to components of other comprehensive income	-	-	-
Other comprehensive income/(loss) for the period net of tax	286	9,806	(7,344)
Total comprehensive (loss for the period)	(93,193)	(13,854)	(3,150)
Attributable to owners of the parent	(93,193)	(13,854)	(3,150)

The accompanying notes form part of this financial report.

CONSOLIDATED GROUP STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	2010 \$'000	2009 \$'000	2008 \$'000
CURRENT ASSETS				
Cash and cash equivalents	12	17,155	16,247	24,733
Trade and other receivables	13	4,168	2,438	16,112
Biological assets	14	1,477	1,339	7,096
Inventories	15	1,671	4,204	2,819
Other financial assets	16	26	1,242	917
Other assets	20	457	848	2,640
Current tax assets	23	53	54	-
Total current assets		25,007	26,372	54,317
NON-CURRENT ASSETS				
Trade and other receivables	13	4,321	11,574	1,482
Other financial assets	16	-	147	-
Property, plant and equipment	18	7,547	78,924	57,464
Intangible assets	19	1,013	1,013	1,013
Deferred tax assets	23	-	-	293
Other assets	20	182	-	11
Total non-current assets		13,063	91,658	60,263
TOTAL ASSETS		38,070	118,030	114,580
CURRENT LIABILITIES				
Trade and other payables	21	3,602	8,890	6,884
Financial liabilities	22	624	599	3,400
Current tax liabilities	23	-	-	95
Short-term provisions		74	61	-
Total current liabilities		4,300	9,550	10,379
NON-CURRENT LIABILITIES				
Other payables		109	-	-
Financial liabilities	22	59,028	57,413	55,437
Deferred tax liabilities	23	-	28	142
Total non-current liabilities		59,137	57,441	55,579
TOTAL LIABILITIES		63,437	66,991	65,958
NET ASSETS (DEFICIT)/SURPLUS		(25,367)	51,039	48,622
EQUITY				
Issued capital	24	76,634	61,123	45,038
Reserves		10,931	9,385	579
Retained earnings (Accumulated losses)		(112,938)	(19,475)	2,904
Minority Interests		6	6	101
Total Equity (Deficiency)		(25,367)	51,039	48,622

The accompanying notes form part of these financial statements.

CONSOLIDATED GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	Ordinary Share Capital \$'000	Retained Earnings (Accumulated Losses) \$'000	Share Based Payments Reserve \$'000	Foreign Currency Translation Reserve \$'000	Convertible Notes Reserve \$'000	Minority Interests \$'000	Total \$'000
Balance as at 30 June 2007	40,851	(1,290)	1,406	(2,504)	9,802	398	48,663
Profit/(loss) attributable to members of parent entity	-	4,194	-	-	-	-	4,194
Profit/(loss) attributable to minority interests	-	-	-	-	-	90	90
Other comprehensive income	-	-	-	(7,344)	-	-	(7,344)
Pro-rata expenses of February 2009 options that lapsed during the year	-	-	(125)	-	-	-	(125)
Conversion of convertible notes to equity	4,187	-	-	-	(656)	-	3,531
Minority Interest of India subsidiary companies	-	-	-	-	-	(387)	(387)
Balance as at 30 June 2008	45,038	2,904	1,281	(9,848)	9,146	101	48,622
Profit/(loss) attributable to members of parent entity	-	(23,660)	-	-	-	-	(23,660)
Profit/(loss) attributable to minority interests	-	-	-	-	-	(95)	(95)
Other comprehensive income	-	-	-	9,806	-	-	9,806
Pro-rata expenses of February 2009 options that lapsed during the year	-	1,281	(1,281)	-	-	-	-
Conversion of convertible notes to equity	(87)	-	281	-	-	-	194
Issue of new shares	16,172	-	-	-	-	-	16,172
Balance as at 30 June 2009	61,123	(19,475)	281	(42)	9,146	6	51,039
Profit/(Loss) attributable members of parent entity	-	(93,479)	-	-	-	-	(93,479)
Profit/(Loss) attributable minority interests	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	286	-	-	286
Pro-rata expenses of 2009 options that lapsed during the year	-	16	(16)	-	-	-	-
Pro-rata expenses for Options and performance shares	-	-	1,276	-	-	-	1,276
Issue of New Shares	15,511	-	-	-	-	-	15,511
Balance as at 30 June 2010	76,634	(112,938)	1,541	244	9,146	6	(25,367)

CONSOLIDATED GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010



	Note	2010 \$'000	2009 \$'000	2008 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers		17,126	53,362	3,774
Payments to suppliers and employees		(21,331)	(61,552)	(17,664)
Interest received		167	716	325
Finance costs		(2,859)	(3,248)	(2,983)
Income tax paid		(5)	(169)	-
Net cash (used in) operating activities	29	(6,902)	(10,891)	(16,548)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(7,540)	(14,099)	(35,827)
Payments for subsidiary (net of cash acquired)		-	-	(591)
Purchase of performance bond Investments		1,112	(1,299)	-
Receipt from investment in held to maturity investment and deposits		23	1,002	(917)
Net cash (used in) investing activities		(6,405)	(14,396)	(37,335)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from share issue (net of costs)		15,511	16,172	-
(Repayments)/proceeds from borrowings		(574)	(3,787)	7,254
Net cash provided by financing activities		14,937	12,385	7,254
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
Cash and cash equivalents at beginning of the financial year		16,247	24,733	78,841
Effects of exchange rate fluctuations of cash held in foreign currencies		(722)	4,416	(7,479)
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	12	17,155	16,247	24,733

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

The accompanying notes form part of these financial statements.

1. Nature of operations and general information

Mission New Energy Limited is a company domiciled in Australia (ACN: 117 065 719) and:

- listed on the ASX with its operations in Malaysia and India;
- that owns and operates a 100,000 tpa (approx. 30 million gallons p.a.) biodiesel plant at Kuantan in Malaysia producing biodiesel;
- that is the only non-German biodiesel producer to be certified by AGQM, the German Biodiesel production process certification body;
- that has recently commissioned a 250,000 tpa (approx. 75 million gallons p.a.) biodiesel plant with KNM Process Systems Sdn Bhd as a turnkey contractor which is adjacent to the 100,000 tpa plant;
- that will initially use Crude Palm Oil (CPO) as the feedstock for its biodiesel plants in Malaysia;
- that is rapidly developing its upstream feedstock business in India, which is focusing on a drought-resistant perennial plant (*Jatropha Curcas*) that grows in marginal/poor soil. *Jatropha* is easy to establish, grows quickly, produces seeds for over 40 years and importantly is inedible;
- that will ultimately replace CPO with *Jatropha* Oil as its feedstock for its biodiesel plants;
- that owns and operates two wind energy turbines of 1.65 MW each in India which sell electricity to a Western Indian utility under a 13 year power purchase agreement.

2. Basis of preparation

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASB's) (including Australian interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

Basis of measurement

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. All amounts shown are in Australian dollars (\$) unless otherwise stated.

The financial statements have been prepared on a going concern basis. The ability of the Group to continue as a going concern and pay its debts as and when they fall due is dependent on the continued support of its bankers and its customer base (refer note 5 (b)).

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Functional and Presentation currency

The consolidated financial statements are presented in Australian Dollars. The functional currencies of the operating units are as follows:

- Refining operations - Malaysian Ringgit,
- Feedstock operations – Indian Rupee,
- Other – Australian Dollar.

This financial report was approved by the Board of Directors on 17 September 2010.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



3. Statement of Significant Accounting Policies

Except where stated, these accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year.

a. Principles of Consolidation

The consolidated financial statements comprise the financial statements of Mission NewEnergy Limited and its subsidiaries, as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. These include Mission Biotechnologies Sdn Bhd (MBTSB), Mission Biofuels Sdn Bhd, Mission Agro Energy Limited and Mission Biofuels (India) Pvt Ltd.

On 13 December 2005, Mission NewEnergy Limited acquired all of the issued capital of MBTSB. In accordance with the requirements of AASB 3 Business Combinations, MBTSB was identified as the acquirer in relation to the combination. Accordingly, the combination has been accounted for as a reverse acquisition. This has resulted in the consolidated statement of financial position reflecting the assets, liabilities and equity of MBTSB, and the cost of the combination being recognised at the fair value of the equity instruments on issue in Mission NewEnergy Limited at the date of acquisition. The application of AASB 3 Business Combinations does not change the status of Mission NewEnergy as the legal parent entity of the Group.

Mission Agro Energy Limited (MAEL), a wholly owned subsidiary of Mission NewEnergy Limited, was incorporated on 8 September 2006. On 28 March 2007, MAEL initially acquired 70% of the issued capital of Mission Biofuels (India) Private Limited (MBIPL) and has incrementally increased the shareholding to 99.49% at 30 June 2010.

MBIPL had acquired 51.01% of the issued capital of Mission Agro Diesel (India) Private Limited on 8 March 2007 with the corporate decision making process resulting in joint control. On 2 May 2008 the Board resolved to sell Mission Agro Diesel (India) Pvt Ltd, and accordingly AASB5 "Non Current Assets held for sale discontinued operations" is applied in accounting for this transaction. The full value of the investment in Mission Agro Diesel (India) Private Limited has been provided for. As at Balance sheet date this company had not been sold.

A list of controlled entities is contained in Note 17 to the financial statements. All controlled entities have a 30 June financial year-end.

All inter-company balances and transactions between entities in the Consolidated Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies applied by the parent entity. Where controlled entities have entered or left the Consolidated Group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

b. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



3. Statement of Significant Accounting Policies (Cont'd)

b. Income Tax (Cont'd)

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

c. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of work in progress includes purchases of seeds for nursery and saplings. Development charges are applied on the basis of normal operating capacity.

d. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

The cost of fixed assets constructed within the Consolidated Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

e. Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Class of Fixed Asset	Depreciation Rate
Buildings	5%
Leasehold improvements	10%
Machinery and equipment	10%
Biodiesel Plant	5%
Computer equipment	20% - 33%
Motor Vehicles	20%
Office equipment	10%
Leased plant and equipment	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

3. Statement of Significant Accounting Policies (Cont'd)

f. Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the Consolidated Group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

g. Financial Instruments

Recognition

Financial instruments are initially measured at fair value on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Hedge accounting

The group uses derivatives from time to time to manage financial risk and does not apply hedge accounting.

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



3. Statement of Significant Accounting Policies (Cont'd)

g. Financial Instruments (Cont'd)

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

h. Impairment of non-financial Tangible and Intangible Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed at each reporting date for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

i. Intangibles

Goodwill

Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

j. Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and will be amortised on a systematic basis matched to the future economic benefits over the useful life of the project. As the development phase is still in progress, amortisation has not commenced. The estimated useful life of this asset will be determined when the development stage is complete.

k. Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

3. Statement of Significant Accounting Policies (Cont'd)

k. Foreign Currency Transactions and Balances (Cont'd)

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period where this is not materially different from the rate at the date of the transaction; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the income statement in the period in which the operation is disposed.

l. Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Equity-settled compensation

Equity settled share-based payments are measured at fair value at the date of grant. Fair values of options are measured using the Binomial model. Fair value of performance shares are based on the closing share price on the date of grant. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value determined at the grant date of the equity settled share share-based payments is expensed on a straight-line basis over the vesting period, based on the Consolidated Group's estimate of shares that will eventually vest.

m. Payables

Trade payables and other accounts payable are recognised when the Consolidated Group becomes obliged to make future payments resulting from the purchase of goods and services.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



3. Statement of Significant Accounting Policies (Cont'd)

n. Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

o. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

p. Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers, when reasonable certainty exists that such revenues will be realised and the risks and rewards of ownership have been transferred.

The change in the fair value of biological assets (refer accounting policy 3w), is recognised in revenue in the period in which the change in fair value occurs.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

q. Borrowing Costs

All borrowing costs are recognised in the income statement in the period in which they are incurred, except for borrowing costs that are directly related to the construction of an asset, which are capitalised.

r. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

s. Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



3. Statement of Significant Accounting Policies (Cont'd)

t. Convertible Notes

For convertible notes, the component of the convertible note that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On issuance of the convertible note, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long term liability. The increase in the liability due to the passage of time is recognised as a finance cost.

The remainder of the proceeds is allocated to the Convertible Notes reserve that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

u. Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, unless otherwise stated, amounts in the financial report and directors' report have been rounded off to the nearest \$1,000.

v. Non-current assets held for sale

Non-current assets held for sale are measured at the lower of cost or fair value when the assets is available for immediate sale and expected to be sold within 12 months. No depreciation is recorded over the assets held for sale.

w. Biological assets

Biological assets, in the form of *Jatropha Curcas* saplings, are measured at fair value less estimated point of sale costs, with the changes in fair value during the period recognised in the Income Statement. Points of sale costs include all costs that would be necessary to sell the asset.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

4. New standards and interpretations not yet adopted

The following amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied preparing this financial report:

New / revised pronouncement	Superseded pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report (if standard is not early adopted)	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 9 Financial Instruments	AASB 139 Financial Instruments:	AASB 9 introduces new requirements for the classification and measurement of financial assets. AASB 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in AASB 139 and removes the impairment requirement for financial assets held at fair value.	31 December 2013	AASB 9 amends the classification and measurement of financial assets; the effect on the entity will be that more assets are held at fair value and the need for impairment testing has been limited to assets held at amortised cost only.	AASB 9	Depending on assets held, there may be significant movement of assets between fair value and cost categories and ceasing of impairment testing on available for sale assets.
AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	AASB 124 Related Party Disclosures	This revision amends the disclosure requirements for government related entities and the definition of a related party.	31 December 2011	Since the entity is not a government related entity; there is not expected to be any changes arising from this standard.	AASB 2009-12	Unlikely to have significant impact in Australia.
AASB 2009-12 Amendments to Australian Accounting Standards arising from AASB 124.	AASB 124 Related Party Disclosures	This revision amends the disclosure requirements for government related entities and the definition of a related party.	31 December 2011	Since the entity is not a government related entity; there is not expected to be any changes arising from this standard.	AASB 2009-12	Unlikely to have significant impact in Australia.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

4. New standards and interpretations not yet adopted (Cont'd)

New / revised pronouncement	Superseded pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report (if standard is not early adopted)	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	N/A	Makes various amendments to a number of standards and interpretations in line with the IASB annual improvements project.	31 December 2010	Given the number of standards amended by AASB 2009-5, an example disclosure is not included. Entities assess the impact of each of the amendments on their organisation.	Related standard where applicable.	Varies depending on relevance, however impact is unlikely to be significant.
AASB 2009-9 Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters	AASB 1 First Time adoption of Australian Equivalents to International Financial Reporting Standards (June 2007)	AASB 2009-9 makes amendments to ensure that entities applying Australian Accounting Standards for the first time will not face undue cost or effort in the transition process in particular situations.	31 December 2010	As this is not the first year of adoption of IFRSs, these amendments will not have any impact on the entity's financial report.	AASB 1	No impact for entities who are applying IFRS.
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	AASB 132 Financial Instruments: Presentation	AASB 2009-10 makes amendments which clarify that right, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its non-derivative equity instruments.	31 January 2011	As the entity does not have any rights, options or warrants to acquire their own equity instruments, these amendments will not have any impact on the entity's financial report.	AASB 132	Potentially significant if rights issues have been offered and denominated in foreign currency.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

4. New standards and interpretations not yet adopted (Cont'd)

New / revised pronouncement	Superseded pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report (if standard is not early adopted)	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 2009-13 Amendments to AASB 1 arising from Interpretation 19	Interpretation 19	This standard amends AASB 1 to allow a first-time adopter to use the transitional provisions in Interpretation 19.	30 June 2011	As the entity is not a first-time adopter of IFRS, this standard will not have any impact.	None	Unlikely to have significant impact.
AASB 2010-01 Limited exemption from comparative AASB 7 disclosures for first time adopters (Amendments to AASB 1 and AASB 7)	AASB 1: First-time adoption of Australian Accounting Standards AASB 7 Financial Instruments: Disclosures	These amendments principally give effect to extending the transition provisions of AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments to first-time adopters of Australian Accounting Standards.	30 June 2011	As the entity is not a first-time adopter of IFRS, this standard will not have any impact.	None	Reduced disclosures for first-time adopters.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

4. New standards and interpretations not yet adopted (Cont'd)

New / revised pronouncement	Superseded pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Example disclosure of impact on the financial report (if standard is not early adopted)	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
Australian Accounting Interpretations						
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	N/A	This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as 'debt for equity swaps'.	30 June 2011	As the entity has not renegotiated any financial liabilities into equity instruments this interpretation is not expected to have any impact on the entity's financial report.	None	Significant if the entity has renegotiated any financial liabilities to equity instruments.
AASB 2009-14 Prepayments of a Minimum Funding Requirement (Amendments to Interpretation 14)	N/A	This amendment to Interpretation 14 addresses the unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan.	31 December 2011	As the entity does not have a defined benefit pension plan this amendment to Interpretation 14 is not expected to have any impact on the entity's financial report.	None	Possibly significant if the entity has a defined benefit pension plan.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

4. New standards and interpretations not yet adopted (Cont'd)

New / revised pronouncement	Superseded pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report (if standard is not early adopted)	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 2010-2 Amendments to Australian Accounting Standards arising from reduced disclosure requirements	None	This Standard gives effect to Australian Accounting Standards - Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.	30 June 2014	AASB 2010-2 sets out the relevant disclosures that will not be required to be made if it is a Tier 2 entity that nominates to comply.	None	Reduced note disclosures in the following main areas: AASB 7 Financial Instruments; Disclosures AASB 101 Presentation of Financial Statements AASB 108 Accounting Policies AASB 123 Borrowing Costs AASB 124 Related Party Disclosures AASB 128 Accounting for Associates

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

4. New standards and interpretations not yet adopted (Cont'd)

New / revised pronouncement	Superseded pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report (if standard is not early adopted)	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	None	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e. split between consideration and post combination expenses.	30 June 2011	Given the number of standards amended by AASB 2010-3, an example disclosure is not included. Entities assess the impact of each of the amendments on their organisation.	None	Varies depending on relevance, however impact is unlikely to be significant.
		Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated.				
		Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.				

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



4. New standards and interpretations not yet adopted (Cont'd)

New / revised pronouncement	Superseded pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report (if standard is not early adopted)	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	None	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions. Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken in account.	31 December 2011	Given the number of standards amended by AASB 2010-4, an example disclosure is not included. Entities assess the impact of each of the amendments on their organisation.	None	Varies depending on relevance however impact is unlikely to be significant.

The Group has not yet determined the potential effect of the amending standards on the Group's financial report.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

5. Critical Accounting Estimates and Judgments

The preparation of annual financial reports requires the Board to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The Board evaluates estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Actual results may differ from these estimates.

Except as described below, in preparing this consolidated financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the consolidated financial report as at and for the year ended 30 June 2009. During the twelve months ended 30 June 2010 management reassessed its estimates in respect of:

a. Impairment of assets

The Group assesses impairment of assets at each reporting date by evaluating conditions specific to the Group that may lead to impairment. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Goodwill

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3(h). Goodwill has arisen as a result of the purchase of equity in Mission Biofuels India Pvt Ltd. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'. The significant assumptions applied in this value in use calculation are;

- a forecast of cash inflows from sale of jatropha curcas saplings,
- a forecast of expenditure to meet operational requirements,
- the forecast of seed and oil yields and, the resultant oil extracted meets expected outputs,
- an estimate of commodity sales prices for Jatropha crude oil and Jatropha seedcake, and
- that this will result in the utilisation of jatropha oil in the Groups biodiesel refineries or sold to other third party refineries.

There is a significant risk of the actual outcomes being different from those forecast due to changes in economic, market and agricultural conditions and/or assumptions regarding events, which may result in the carrying value of the goodwill exceeding the recoverable amount.

The recoverable amounts of goodwill have been estimated using value in use calculations and have been applied to the forecast cash generated from operations within the feedstock cash generating unit. Please refer to note 19 for details on the carrying value of goodwill.

Credit risk of receivables

Malaysian operations

Credit risk for sales in the refining operations are managed with the use of "Letters of Credit" for most of the sales, thus the risk of receivable default is negligible.

Indian Operations

Credit risk, to a carrying value of A\$6.4 million (A\$13.0 million at 30 June 2009) after providing for impairment and discounting charge, arising from sales of Jatropha Curcas saplings to contract farmers (around 124,000 contract farmers) is managed through the following approach:

- The Company sells Jatropha Curcas saplings to various contract farmers in India. The contracts are concluded after a detailed review of the suitability of the contract farmer and the proposed land to be used for contract farming,

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



5. Critical Accounting Estimates and Judgments (Cont'd)

a. Impairment of assets (Cont'd)

Indian Operations (Cont'd)

- The sales contract states that the balance owing is at call by the Company and that the Company has a 30 year agreement to buy back from the Contract Farmer the future harvest of oil seeds produced by the Jatropha trees. The Jatropha Curcas saplings have an estimated production life in excess of 30 years. Receivables are secured against these future contracted purchases of Jatropha Curcas seeds,
- Sales are made to a large number of geographically disbursed contract farmers, with each receivable being for a relatively low value (around A\$250 per contract farmer, depending on the contract farming acreage),
- The Company has in place memoranda of understanding with a number of leading financial institutions in India who have agreed to finance the contract farmers to fund their upfront investment into the Jatropha saplings.
- These financial institutions have formulated specific schemes of financing for Jatropha farming,
- In addition, the National Bank for Agriculture and Rural Development (NABARD) of India (apex body for agricultural financing) has in place a standardised scheme of financing to farmers of Jatropha Curcas,
- Disbursement of these loans to the farmers will enable them to repay the amounts owed to the Company,
- The Company assists the farmers in their interaction with the financial institutions for availing of loan facilities.
- In assessing the recoverability of sapling sales receivables, the following factors are taken into account;
 - o actual recovery of receivables to date,
 - o anticipated timing of future receipts, based on;
 - o anticipated loan disbursement rates from the banks to the farmers, to enable the farmer to repay the receivable to Mission,
 - o estimates of expected yields of oil seeds from the Jatropha Curcas saplings, and estimated mortality of Jatropha Curcas saplings.
- The operational team in India has achieved a significant improvement in the collection of receivables through the disbursement of bank loans to the farmers during the twelve months to June 2010,

The Directors believe that due to the systems and processes now in place and extensive effort put in by banks and Mission staff that loans will continue to be disbursed to farmers in due course. During the period, the leadership team in India successfully rolled out Mission's proprietary GPS mapping and agronomy management system with a significant portion of the fields reviewed for maturity and existence of saplings, condition, stem girth etc. The results of this review at December 2009 indicated ~50% of plantation acreage were performing to targets. While, management has stepped up agronomy training to its currently underperforming farmers, given the review on sapling mortality, the Board has accordingly revised its assessment of recoverability of receivables from the sale of saplings, and thus the Directors have increased the provision for impairment to A\$14.0 million at 30 June 2010.

Further, given the run rate of cash collections achieved during the year to 30 June 2010 and the inherent challenges in assisting the farmers in their interaction with the banks, the Directors have re-assessed the estimate of when the Group's receivables will be settled by the farmers. Accordingly, at 30 June 2010, the Directors have classified A\$4.3 million (after providing for impairment and discounting charge) of sapling sale receivables as non-current.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

5. Critical Accounting Estimates and Judgments (Cont'd)

a. Property, Plant and Equipment

Property, plant and equipment are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

During the year, the Board was pleased to announce the commissioning of Missions new 250,000 tpa biodiesel plant, adjacent to the 100,000 tpa plant in Kuantan Port, Malaysia. Both plants are in excellent condition and on full operational standby to produce biodiesel as and when required. In addition, the construction of a distillation column within the plant property is underway which will allow the refineries to meet different specifications of biodiesel, as required by various customers.

The Board reviews the carrying value of its refinery assets at each reporting date. Historically, and again at 31 December 2009, the Board was satisfied to carry the value of the refinery assets at their amortised cost (\$66.8 million At 31 December 2009) because the forecast profits to be generated by the refineries exceeded the carrying value. This assessment is based on a number of assumptions including forecast oil yields, commodity prices, and volumes. In addition, the Directors took into account the 5 year Valero sales contract signed in December 2009.

During the second half of the 2010 financial year, the USA introduced its revised Renewable Fuels Standard 2, which legislated, amongst other items, a significant mandate for the use of biodiesel in the USA. This in itself is especially promising for the biofuels industry. However the revised legislation also introduced a requirement for vegetable oil feedstock's, such as soy, rape seed, palm oil and Jatropha oil to meet certain environmental and green house gas requirements. At this point in time, the detailed analysis required to demonstrate that palm and jatropha will meet these requirements is in progress. In addition, a key subsidy, called the Biodiesel blending credit (being US\$1 per gallon), lapsed on 31 December 2009. The extension of this subsidy, although in principle supported by Congress, is being widely debated by the US government, and has at this date not been formally extended.

In addition, the European Union has introduced, with effect 1 July 2010, legislation that requires palm based biodiesel to be based on new sustainability criteria (named the Renewable Energy Directive). There are limited supplies of certified palm oil at this present stage. Numerous producers of palm oil are in the process of registering their production facilities to be in compliance with the European requirements.

Despite the significant efforts internationally to address these legal requirements, the Board is required, under the accounting standards, to assess the refining cash generating unit's ability to generate revenue based on existing conditions. The combination of these factors at this point in time forces the Board to provide for an impairment of the refining assets until the legislative hurdles are cleared. This accounting write-off is in no way an indication that the plant cannot produce biodiesel under the required specifications.

In addition to the impairment of refinery assets, an impairment review of the windmills was undertaken. In determining value in use, future cash flows are based on;

- Forecast future revenue levels which are based on forecast electricity generation and contracted rates per Kwh, and
- Forecast future maintenance expenses,

Value in use is calculated based on the present value of cash flow projections over the anticipated lives of the assets, with the assets having an anticipated life of 20 years, with a discount rate based on the Companies weighted average cost of capital, adapted for the regions in which the windmills operate.

Revenues generated from these assets were found to be less than expected, thus the carrying value of the windmill assets were written down to their value in use.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



5. Critical Accounting Estimates and Judgments (Cont'd)

a. Property, Plant and Equipment (Cont'd)

	2010 \$'000	2009 \$'000	2008 \$'000
Impairment of refineries	71,252	-	-
Impairment of windmills	1,837	-	-
Total	73,089	-	-

Investments in subsidiaries

Investments held by the parent entity, Mission NewEnergy Ltd, are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. The recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

At 30 June 2010, the investments in the refining subsidiaries have been impaired in the parent entity's financial statements (refer to note 33).

The significant assumptions applied in the value in use calculation for the feedstock subsidiary are;

- o a forecast of cash inflows from sale of jatropha curcas saplings,
- o a forecast of expenditure to meet operational requirements,
- o the forecast of seed and oil yields and, the resultant oil extracted meets expected outputs,
- o an estimate of commodity sales prices for Jatropha crude oil and Jatropha seedcake, and
- o that this will result in the utilisation of jatropha oil in the Groups biodiesel refineries or sold to other third party refineries.

There is a significant risk of the actual outcomes being different from those forecast due to changes in economic, market and agricultural conditions and/or assumptions regarding events, which may result in the carrying value of the feedstock subsidiary exceeding the recoverable amount.

No impairment has been made for the feedstock subsidiary at 30 June 2010.

b. Going Concern

The Group had a loss for the year ended 30 June 2010 of \$93.5 million after an impairment of \$73.1 million (2009 : \$23.6 million), a current assets less current liability surplus of \$20.7 million (2009 : \$16.8 million) and a net asset deficiency of \$25.4 million (2009 : \$51.0 million surplus) at balance date. The net asset deficiency is as a result of the impairment of refinery assets during the current financial year (refer to note 5a).

The Directors believe that the consolidated group has sufficient financial resources at 30 June 2010 to meet its committed financial liabilities.

The Financial Statements have been prepared on a going concern basis which has been assessed based on detailed cash flow forecasts extending out twelve months from the date of this financial report. The cash flow forecasts from operations are based on the forecast cash flows required to sustain the business, cash on hand at 30 June 2010 and the ongoing receivables collection associated with historic sapling sales. At the date of this report, the Board is exploring an opportunity to defer the payment of capital commitments (refer to note 26) of around A\$6.4 million.

The ability of the Company to continue as a going concern in the ordinary course of business and to achieve the business growth strategies and objectives is dependent upon its ability to collect amounts owing under its receivables, defer the capital commitment relating to the second biodiesel plant, or raise further debt or equity to meet the capital commitments. The debt or equity funding referred to above has not been agreed to at the date of this report.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



5. Critical Accounting Estimates and Judgments (Cont'd)

b. Going Concern (Cont'd)

Notwithstanding the matters mentioned above, the directors believe that the Company will be successful in the matters discussed above and accordingly have prepared the financial report on a going concern basis in the belief that the Company will realise its assets and settle its liabilities and commitments in the normal course of business and for at least the amounts stated in the financial report. However, should the Company not be successful in the matters discussed above, there is significant uncertainty whether the Group would be able to continue as a going concern.

c. Biological Asset

The fair value of the *Jatropha Curcas* saplings is determined by reference to independent market prices. Subsequent movements in the fair value of the *Jatropha Curcas* saplings are determined through operational reviews of the market prices.

6. Determination of fair value

A number of the Groups accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

Biological assets

The fair value of biological assets is based on the market price of *Jatropha* sapling sales in India.

Share based payment transactions

The fair value of the employee share options is measured using the Black-Scholes option pricing model, with the fair value of performance shares being based on the share price of Mission NewEnergy Ltd on the date of approval. Measurement inputs include the share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instrument, expected dividends and the risk free interest rate. Service and non-market performance conditions are not taken into account in determining the fair value.

7. Sales revenue

	2010 \$'000	2009 \$'000	2008 \$'000
Sales Revenue			
- Sales of goods	14,533	43,368	9,403
- Change in fair value of biological assets	1,656	9,441	18,208
Total revenue	16,189	52,809	27,611
Other Income			
Dividend received	-	6	126
Interest received	204	387	1,914
Sundry income	67	1,975	282
Other income	271	2,368	2,322

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

8. Expenses

Profit (loss) for the year includes the following specific expenses

	2010	2009	2008
	\$'000	\$'000	\$'000
8a) Cost of sales	13,561	44,104	8,222
Cost of growing the biological asset	1,460	1,605	2,742
Total	<u>15,021</u>	<u>45,709</u>	<u>10,964</u>
8b) Employee costs			
Wages and Salaries	3,860	4,692	2,566
Contributions to defined contribution plans	170	232	128
Equity settled share based payments expense	1,277	193	-
Total	<u>5,307</u>	<u>5,117</u>	<u>2,694</u>
8c) Other expenses:			
Audit fees	118	204	96
Advertising	31	31	-
Computer maintenance & consumables	46	33	35
Communication expenses	211	316	163
Donations, ceremonies & exhibitions	-	2	93
Insurance costs	121	261	128
Legal fees	123	51	136
Asset maintenance	320	312	45
Loss on disposal of asset	-	2	40
Other	1,121	2,517	306
Total	<u>2,091</u>	<u>3,729</u>	<u>1,042</u>
8d) Finance Costs			
External	426	964	670
Amortisation of liability portion of convertible notes	1,889	1,750	1,687
Amortisation of convertible note issue costs	404	404	404
Discounting of non-current receivables	-	2,850	674
Interest on convertible note	2,433	2,433	2,433
Total	<u>5,152</u>	<u>8,401</u>	<u>5,868</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



9. Income tax

	2010 \$'000	2009 \$'000	2008 \$'000
a. The components of tax expense comprise			
Current tax	29	64	243
Deferred tax	-	370	(156)
Over provision in respect of prior years	-	-	74
	29	434	161
b. The prima facie tax on the profit (loss) from ordinary activities before income tax is reconciled to the income tax as follows:			
Accounting profit (loss) before tax	(93,450)	(23,321)	4,445
Prima facie tax (benefit)/expense on profit/ (loss) from ordinary activities before income tax at 30%	(28,035)	(6,996)	1,334
Adjusted for:			
Tax effect of:			
- overseas tax rate differential	7,218	379	511
- non-deductible entertainment	-	-	1
- other non-assessable items	20,846	6,681	(1,400)
- Deferred tax asset not recognised (tax losses)	-	370	(359)
	29	434	87
Add:			
Over provision for income tax in prior year	-	-	74
Income tax attributable to entity	29	434	161
The applicable weighted average effective current tax rates are as follows:	_14	_15	11.5%

¹⁴ No effective tax rate calculated due to the loss position.

¹⁵ No effective tax rate calculated due to the loss position.

10. Auditors' Remuneration

	2010 \$'000	2009 \$'000	2008 \$'000
Remuneration of the auditor of the parent entity for:			
- auditing or reviewing the financial report	75	64	42
Remuneration of other auditors of subsidiaries for:			
- auditing or reviewing the financial report of subsidiaries	61	83	71

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

11. Earnings per share

	2010 \$'000	2009 \$'000	2008 \$'000
a. Reconciliation of earnings to profit or loss			
Profit/(Loss)	(93,479)	(23,755)	4,284
Profit/(Loss) attributable to minority equity interests	-	95	(90)
Earnings used in calculation of both ordinary and dilutive EPS	(93,479)	(23,660)	4,194
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	235,562,471	98,986,256	92,642,651
Effect of:			
- Performance Shares and options	-	-	14,000
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	235,562,471	98,986,256	92,656,651

Diluted earnings per share exclude convertible notes and options that had an exercise price above the average market price during the period they existed. Where a loss is made, all convertible notes and options are excluded as the impact of including them would be to reduce the loss per share. The table below reflects the entire number of equity instruments in issue at each period end which could potentially dilute basic earnings per share (i.e. numbers above are included in the table below):

	2010	2009	2008
Issued ordinary shares	275,007,568	194,235,155	94,221,155
Convertible notes	46,778,845	46,778,845	46,778,845
Employee and third party share options	3,865,746	2,481,492	2,250,000
Employee performance shares	7,786,667	2,700,000	-
Share issue options (warrants)	149,747,586	100,000,000	-
TOTAL	483,186,412	346,195,492	143,250,000

12. Cash and cash equivalents

	2010 \$'000	2009 \$'000	2008 \$'000
Cash at bank and in hand	13,428	15,524	4,316
Short-term bank deposits	3,727	723	20,417
	17,155	16,247	24,733
Reconciliation of cash	17,155	16,247	24,733
Cash and cash equivalents	17,155	16,247	24,733

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

13. Trade and Other Receivables

	2010 \$'000	2009 \$'000	2008 \$'000
CURRENT			
Trade receivables	3,897	1,533	16,435
Other receivables	571	1,266	836
Less: Impairment provision	(300)	(361)	(1,185)
Other related parties	-	-	26
TOTAL	4,168	2,438	16,112
NON – CURRENT			
Trade receivables	21,518	23,976	1,482
Less: Impairment provision (refer note 8d)	(14,065)	(9,183)	-
Less: Discount charge	(3,132)	(3,219)	-
TOTAL	4,321	11,574	1,482
Impairment provision			
Opening Balance:	9,544	1,185	-
Charge for the year	4,839	8,334	1,185
Foreign currency translation difference	(18)	25	-
Closing Balance	14,365	9,544	1,185

At financial year end, the Board reassessed the likely timing of recoverability of receivables and reallocated a material portion to non-current, attracting a discounting charge. The value of current receivables has been based on historical success rates of recovering receivables. Please refer to note 5, significant assumptions and estimates, and note 32 for a detailed discussion around credit risk, provisioning and age analysis of trade and other receivables.

14. Biological Assets

Mission Biofuels India Pvt Ltd grows *Jatropha Curcas* saplings from seeds. The *Jatropha Curcas* saplings meet the definition of a biological asset and are carried on statement of financial position at fair value, with fair value being determined with reference to the existing arms length sales transactions with a large number of geographically disbursed contract farmers, and other readily available market information on the fair value of these saplings. At 30 June 2010, Mission Biofuels India Pvt Ltd had an estimated 21.0 million (2009: 18.7 million) saplings on hand in its controlled nurseries. During the 2010 financial year, the company harvested and sold approximately 6.4 million (2009: 176.2 million saplings).

	2010 \$'000	2009 \$'000	2008 \$'000
Opening Balance	1,339	7,096	-
Add: Increase in fair value due to new plantations	1,656	9,441	19,351
Less: Sale of saplings transferred to trade receivables	(434)	(14,569)	(12,351)
Less: Impairment of biological asset	(740)	(1,475)	-
FX adjustments	(344)	846	96
Closing Balance	1,477	1,339	7,096

Regulatory and environmental risks

The Group is subject to laws and regulations in various countries in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

14. Biological Assets (Cont'd)

Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of *Jatropha Curcas* saplings. Where possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analysis to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

Climate and other risks

The Group's *Jatropha Curcas* nurseries are exposed to the risk of damage from climatic changes, diseases, fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular nursery health inspections and industry pest and disease surveys.

15. Inventories

	2010 \$'000	2009 \$'000	2008 \$'000
CURRENT			
Raw Material and stores	417	1,676	1,612
Finished goods	1,122	2,024	946
Work in progress	132	504	261
	1,671	4,204	2,819

The above is shown at cost.

16. Other Financial Assets

	2010 \$'000	2009 \$'000	2008 \$'000
Current			
Held to maturity financial assets	26	45	917
Performance bond	-	1,197	-
	26	1,242	917
Non-Current			
Other financial assets	-	147	-
	-	147	-

Held to maturity investments (zero interest) relate to investments in Mutual Funds which mature within 12 months.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

17. Investments in subsidiaries

a. Controlled Entities Consolidated	Country of Incorporation	Percentage Owned (%)*		
		2010	2009	2008
Parent Entity:				
Mission NewEnergy Limited	Australia			
Subsidiaries of Mission NewEnergy Limited:				
Mission Biotechnologies Sdn Bhd	Malaysia	100	100	100
Mission Biofuels Sdn Bhd	Malaysia	100	100	100
Mission Agro Energy Limited	Mauritius	100	100	100
Indas Green Acquisition Corporation	Cayman Islands	73.2	73.2	73.2
Subsidiaries of Mission Agro Energy Limited				
Mission Biofuels India Private Ltd	India	99.49	99.17	99.17
b. Jointly controlled entities				
Subsidiaries of Mission Biofuels India Private Ltd				
Mission Agro Diesel (India) Private Limited	India	51	51	51

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



18. Property Plant and Equipment

	Land and Building	Office Equipment	Computer				Motor Vehicle	Plant and Equipment	Asset under Construction	Biodiesel Plant	Total
			Equipment	Software	equipment & Software	Plant					
Cost	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Cost at 1 July 2008	800	203	535	149	22,417	28,553	58,232				
Additions	815	82	259	64	17,547	1,154	19,922				
Foreign currency translation	10	4	23	10	826	2,705	3,871				
Disposal	-	(4)	(11)	-	-	-	(15)				
Cost at 30 June 2009	1,625	285	806	223	40,790	32,412	82,010				
Additions	12	85	86	23	2,175	75	2,456				
Foreign currency translation	6	4	(45)	5	1,140	(2,928)	(1,926)				
Impairment					(43,472)	(27,935)	(73,089)				
Disposal	(3)			(34)			(37)				
Cost at 30 June 2010	1,640	374	847	217	633	1,624	9,414				
Accumulated depreciation											
Accumulated depreciation at 1 July 2008	8	37	93	35	-	496	768				
Depreciation for the year	44	82	149	43	-	1,813	2,469				
Foreign currency translation	(3)	(3)	(5)	-	-	(112)	(147)				
Disposal	-	(1)	(3)	-	-	-	(4)				
Accumulated depreciation at 30 June 2009	49	115	234	78	-	2,197	3,086				
Depreciation for the year	36	28	283	21	-	1,458	2,118				
Foreign currency translation	10	-	15	3	-	284	316				
Disposal/Impairment	-	-	-	-	-	(3,653)	(3,653)				
Accumulated depreciation at 30 June 2010	95	143	532	102	-	286	1,867				

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

18. Property Plant and Equipment (Cont'd)

	Land and Building	Office Equipment	Computer equipment & Software	Motor Vehicle	Plant and Equipment	Asset under Construction	Biodiesel Plant	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Impairment losses								
Accumulated impairment at 1 July 2008	-	-	-	-	-	-	-	-
Impairment for the year	-	-	-	-	-	-	-	-
Accumulated impairment at 1 July 2009	-	-	-	-	-	-	-	-
Impairment for the year	-	-	-	-	(1,682)	(43,472)	(27,935)	(73,089)
Accumulated impairment at 30 June 2010	-	-	-	-	(1,682)	(43,472)	(27,935)	(73,089)
Net book value at 30 June 2008	792	166	442	114	5,476	22,417	28,057	57,464
Net book value at 30 June 2009	1,576	170	572	145	5,456	40,790	30,215	78,924
Net book value at 30 June 2010	1,545	231	315	115	3,370	633	1,338	7,547

Impairment loss

Refer to note 5, Critical Accounting estimates for a detailed discussion on the impairment of assets.

Assets under construction

These related primarily to the second biodiesel plant under construction in Malaysia. The plant was commissioned in May 2010 and at 30 June 2010 was in the process of transferring the plant from its fixed price turnkey contractor. See note 26 on capital commitments relating to this plant.

Security

Mission raised term loan finance as bridging finance for the construction of the 250,000 tpa refinery in Malaysia. This loan was repaid in the fourth quarter of the financial year, and loan covenants in place over refining assets were being cancelled at 30 June 2010.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

19. Intangible Assets

	2010 \$'000	2009 \$'000	2008 \$'000
Goodwill			
Carrying amount at beginning of year	1,013	1,013	667
Additions	-	-	352
FX Adjustments	-	-	(6)
Carrying amount at end of year	1,013	1,013	1,013

Refer to note 5a for a discussion on impairment testing of goodwill.

20. Other Assets

	2010 \$'000	2009 \$'000	2008 \$'000
CURRENT			
Prepayments	457	848	2,640
	457	848	2,640
NON-CURRENT			
Security Deposits	182	-	11
	182	-	11

21. Trade and Other Payables

	2010 \$'000	2009 \$'000	2008 \$'000
CURRENT			
Unsecured liabilities			
Trade payables	2,536	686	3,907
Interest Accrued	247	247	247
Sundry payables and accrued expenses	819	7,957	2,730
	3,602	8,890	6,884

22. Financial Liabilities

	2010 \$'000	2009 \$'000	2008 \$'000
CURRENT			
Secured loans	624	599	3,400
	624	599	3,400
NON-CURRENT			
Secured loans	3,038	3,718	3,895
Convertible Notes (unsecured)			
- Nominal value (excluding equity portion)	54,823	54,823	54,823
- Converted to equity	(3,531)	(3,531)	(3,531)
- Amortisation of liability portion	5,467	3,577	1,829
- Costs of issues	(2,023)	(2,023)	(2,023)
- Amortisation of issue costs (cumulative)	1,254	849	444
	59,028	57,413	55,437

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



22. Financial Liabilities (Cont'd)

The secured loans above relate to financing of the windmills in india and an office in Malaysia. These assets are held as security against these loans.

46,778,845 convertible notes were issued on 25 May 2007 at \$1.30 per note.

Principal terms of the Notes are as follows:

- Final maturity date: 18 May 2012
- Conversion price: A\$1.30
- Interest rate: 4.00% per annum
- Convertible into ordinary shares at the option of the Holder or the Company in the circumstances set out in the Terms and Conditions of the Notes
- on the basis of 1 share for 1 convertible note

23. Tax

	2010 \$'000	2009 \$'000	2008 \$'000
Liabilities			
CURRENT			
Current Tax liability / (asset)	(53)	(54)	95
NON-CURRENT			
Deferred tax liability comprises:			
Unrealised FX gains	-	-	(158)
Accruals	-	-	(2)
Other	-	(28)	18
Total	-	(28)	(142)
Assets			
Deferred tax assets comprise:			
Provisions	-	-	144
Transaction costs included in equity	-	-	372
Other	-	-	(223)
	-	-	293
Reconciliations			
i. Gross Movements			
The overall movement in the deferred tax account is as follows:			
Opening balance	(28)	151	(5)
(Charge)/credit to income statement	-	(370)	156
Foreign currency translation difference	28	191	-
Closing balance	-	(28)	151
ii. Deferred Tax Liability			
The movement in deferred tax liability for each temporary difference during the year is as follows:			
Tax allowances relating to unrealised FX gains:			
Opening balance	-	(158)	(158)
Charged to the income statement	-	158	-
Closing balance	-	-	(158)
Tax allowances relating to accruals:			
Opening balance	-	(2)	(94)
Charged to the income statement	-	2	92
Closing balance	-	-	(2)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

23. Tax (Cont'd)

	2010 \$'000	2009 \$'000	2008 \$'000
Other			
Opening balance	(28)	18	(2)
Charge to the income statement	-	(237)	20
Foreign currency translation difference	28	191	-
Closing Balance	-	(28)	18
iii. Deferred tax assets			
The movement in deferred tax assets for each temporary difference during the year is as follows:			
Provisions:			
Opening balance	-	144	25
Charged to the income statement	-	(144)	119
Closing balance	-	-	144
Transactions costs on equity issue:			
Opening balance	-	372	372
(Charged)/Credited directly to equity	-	(372)	-
Closing balance	-	-	372
Other			
Opening balance	-	(223)	(148)
Charged/(Credited) to the income statement	-	223	(75)
Closing balance	-	-	(223)

Deferred tax assets on losses to a value of \$8.8 million to date are not brought to account.

24. Issued Capital

	2010 \$'000	2009 \$'000	2008 \$'000
275,007,568 (2009: 194,235,155 (2008: 94,221,155)) fully paid ordinary shares	76,634	61,123	45,038
	Number	Number	Number
Ordinary shares			
At the beginning of reporting period	194,235,155	94,221,155	91,000,000
Shares issued from conversion of convertible notes			
- 17 July 2007	-	-	144,231
- 8 August 2007	-	-	1,538,462
- 31 May 2008	-	-	1,538,462
Shares issued on performance share conversion (10 November 2008)	-	14,000	-
Ordinary shares issued			
- 30 April 2009	-	7,000,000	-
- 17 June 2009	-	93,000,000	-
- 17 November 2009	50,000,000	-	-
- 26 February 2010	30,000,000	-	-
Exercise of performance shares in February and March 2010	519,999	-	-
Conversion of warrants in January 2010	252,414	-	-
At reporting date	275,007,568	194,235,155	94,221,155

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

24. Issued Capital (Cont'd)

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

The ordinary shares issued in April, June and November 2009 include a warrant (option). Each warrant entitles the holder to acquire one ordinary share of Mission NewEnergy at an exercise price of A\$0.30. The Warrants may not be exercised on a "cashless" or "net exercise" basis. In addition, a Warrant will not entitle the holder to participate in a new issue of ordinary shares or other securities of Mission NewEnergy unless the Warrant has been exercised. The expiration date for exercise of the Warrants will be 30 April 2014. However, if at any time on or after April 15, 2012 the immediately preceding 20-trading day volume weighted average price (as published by or derived from the Australian Securities Exchange) is at least A\$1.00, the Company may give written notice to each warrant holder that if such holder does not exercise its Warrants within 15 days from the date of such notice, then the Warrants would expire on that 15th day. The Warrants will not be listed on any stock exchange.

Shares issued on 26 February 2010 did not include a warrant.

a. Options and Performance Shares

For information relating to the Mission NewEnergy Limited option and performance share plans, including details of options and performance shares issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 30 Share-based Payments.

b. Capital Management

Management controls the capital of the group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern. Due to the development stage that the business is in, managements preferred approach is to fund the business with equity.

The group's debt and capital includes ordinary share capital, performance shares, convertible notes and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

25. Reserves

1. Share based payments reserve

The share based payments reserve arose on the cumulative issue of 3,500,000 options and 9,200,000 performance shares to various officers of the Company. Refer to note 30 for details of the share based payments.

Amounts are transferred out of the reserve and into issued capital when the options are exercised, or if lapsed, then transferred to retained earnings.

2. Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

3. Convertible Notes Reserve

The Convertible Notes reserve is used to record the equity component, less the cost of issue, of the convertible notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



26. Capital and Leasing Commitments

	2010 \$'000	2009 \$'000	2008 \$'000
a. Operating Lease Commitments			
Operating leases contracted for but not reflected in the financial statements			
Payable – minimum lease payments			
- not later than 12 months	186	340	486
- between 12 months and 5 years	927	856	1,090
- greater than 5 years	2,786	3,369	2,989
	3,899	4,565	4,565

Kuantan Port Sub-Lease

Mission Biotechnologies Sdn Bhd has entered into a lease of 2 lots totalling 24,000 sq metres of land at Kuantan Port, Malaysia. The term of the sub-lease is from 1st March 2006 to 30th December 2027. Every 3 years, commencing 1st January 2007, the annual rental will be increased by 10%.

Mission Biofuels Sdn Bhd has entered into a lease of 2 lots totalling 24,000 sq metres of land at Kuantan Port, Malaysia for the 250,000 TPA plant. The term of the sub-lease is from 1st June 2007 to 31st December 2027. Every 3 years, commencing 1st January 2013, the annual rental will be increased by 10%.

Office lease – Perth

The office lease is for a term of 1 year from 3 March 2010.

Lease Commitments – India

Mission Biofuels India Pvt Ltd. has entered into cancellable lease agreements for the office premises, godown (warehouse), guest house, car and nurseries, renewable by mutual consent on mutually agreeable terms. The company has entered into a number of lease agreements throughout India. Lease terms range between 3 and 36 months.

Capital Expenditure Commitments

	2010 \$'000	2009 \$'000	2008 \$'000
Capital expenditure commitments contracted for: -			
Acquisition and installation biodiesel plants ¹⁶	6,349	13,425	7,993
Other	1,436	28	579
	7,785	13,453	8,572
Payable:			
- not later than 12 months	7,785	13,453	8,572
	7,785	13,453	8,572

¹⁶ Note that this value takes into account an estimate of late delivery fees eligible due to the delay in commissioning of Missions second biodiesel refinery.

27. Contingent Liabilities and Contingent Assets

The company has called upon a performance bond placed by the contractor who constructed the 100,000 tpa biodiesel plant, due to non-satisfactory performance. Both parties have agreed to the appointment of an arbitrator to resolve this matter.

The parent entity is not aware of any other contingent liabilities or contingent assets as at 30 June 2010.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

28. Segment Reporting

	Biodiesel Refining (Malaysia)		Jatropha (India)		Power generation (India)		Corporate		Consolidated (Continuing Operations)	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Primary Reporting - Business Segments										
Revenue										
Revenue	13,867 ¹⁷	42,894	1,794 ¹⁸	9,418	527 ¹⁹	497	-	-	16,188	52,809
Other revenue	153	2,151	75	177	-	-	44	40	272	2,368
Total segment revenue	14,020	45,045	1,869	9,595	527	497	44	40	16,460	55,177
Impairment	71,407	-	-	-	1,682	-	-	-	73,089	-
Result										
Segment result before tax	(76,126)	(7,482)	(8,482)	(9,469)	(1,910)	(395)	(6,932)	(5,975)	(93,450)	(23,321)
Profit/(Loss) attributable to minority equity interests								-	-	95
Profit/loss from ordinary activities before income tax										
Income tax expense										
Net profit/(loss)										
									(93,450)	(23,226)
Assets										
Segment assets	10,020	80,007	9,875	17,606	3,370	5,424	14,805	14,993	38,070	118,030
Segment liabilities	2,743	7,019	950	2,689	3,280	3,812	56,464	53,471	63,437	66,991
Acquisitions of property, plant and equipment		19,423		321		-		178		19,922
Depreciation and amortisation	1,691	1,920	91	485	292	-	44	44	2,118	2,449

¹⁷ Sales from the refining business unit are primarily to one customer.

¹⁸ Sales of biological assets are to a large number of individual contract farmers.

¹⁹ Power generation revenue is from one customer.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

28. Segment Reporting (Cont'd)

Segment reporting accounting Policies

The Managing Directors is the Chief operating decision maker. The reportable segments presented are in line with the segmental information reported during the financial year to the Managing Director.

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses and borrowings.

Segment assets and liabilities do not include deferred income taxes.

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the Consolidated Group at an arm's length. These transfers are eliminated on consolidation.

Business and Geographical Segments

The Consolidated Group has three key business segments. The Consolidated Group's business segments are located in Malaysia, India and Mauritius (the Mauritian entity acts as a holding company for Mission Biofuels India Pvt Ltd, and as such no operational activities occur in Mauritius) with the Consolidated Group's head office located in Australia. The Biodiesel Refinery segment is located in Malaysia, the Jatropha business segment which is located in India and the Power generation segment (India).

29. Cash Flow Information

Reconciliation of Cash Flow from Operations with Profit (loss) after Income Tax	2010 \$'000	2009 \$'000	2008 \$'000
Profit / (Loss) after income tax	(93,479)	(23,755)	4,284
Non cash flows in profit / (loss)			
Depreciation of plant and equipment	2,118	2,469	782
Amortisation of Convertible Note Costs	404	404	404
Amortisation of Liability portion of Convertible Note	1,889	1,750	1,687
Provision for employee benefits	15	22	-
(Increase)/decrease in tax assets and liabilities	-	220	13
Impairment of Trade Receivables	4,839	8,333	1,185
Discounting of long term receivables	-	2,850	674
Impairment of assets	73,829	2,947	403
Share based payment expense	1,276	193	(125)
Net cash provided by / (used in) operating activities before change in assets and liabilities	(9,109)	(4,567)	9,307
Change in assets and liabilities			
- (Increase) decrease in receivables	505	(7,610)	(17,745)
- (Increase) decrease in inventories	2,442	(2,351)	(2,744)
- (Increase) decrease in biological assets	(912)	4,906	(7,096)
- (Increase) decrease in other assets	355	2,749	(2,581)
- (Increase) decrease in deferred tax and current tax	(16)	-	-
- Increase (decrease) in creditors and accruals	(166)	(4,384)	4,177
Foreign Currency Adjustments	(1)	366	134
	2,207	(6,324)	(25,855)
Cash used in operations	(6,902)	(10,891)	(16,548)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



29. Cash Flow Information (Cont'd)

Credit Standby Facilities with Banks

	2010 \$'000	2009 \$'000	2008 \$'000
Loan facilities	3,663	25,448	8,235
Amount utilised	(3,663)	(4,317)	(7,295)
	-	21,131	940

Facilities at June 2010 relate term loans for the funding of various items of Property, Plant and Equipment. The loan terms are for a five year period with interest rates from 3.4% to 12.14%. These loans do not have an option to extend.

30. Interests and remuneration of Key Management Personnel

	2010 \$'000	2009 \$'000
Short term employee benefits	1,273	1,004
Post employment benefits	59	67
Share based payments	1,206	183
Total	2,538	1,254

Options

	Balance 1/7/2008	Expired	New issue	Balance 30/6/2009	New issue	Lapsed	Balance 30/6/2010	Vested
Directors								
Mr Dario Amara	1,000,000	(1,000,000)	-	-	-	-	-	-
Tan Sri Razak Ramli	750,000	(750,000)	-	-	-	-	-	-
Datuk Zain Yusuf	500,000	(500,000)	-	-	-	-	-	-
Guy Burnett ²⁰	-	-	-	-	1,750,000	-	1,750,000	1,750,000
Executive								
James Garton ²¹	-	-	1,750,000	1,750,000	-	-	1,750,000	1,750,000
Third parties								
For services rendered in 2009 equity raising	-	-	731,492 ²²	731,492	-	(365,746)	365,746	365,746
TOTAL	2,250,000	(2,250,000)	2,481,492	2,481,492	1,750,000	(365,746)	3,865,746	3,865,746

²⁰ Grant date was 19 October 2009, share price on grant date was 28.5 cents, exercise price is 17 cents, fair value at grant date was 15.94 cents, volatility used was 125.35%, risk free rate used was 4.83%, the options expire on 30 June 2011.

²¹ Grant date was 25 June 2009, share price on grant date was 18.5 cents, exercise price is 17 cents, fair value at grant date was 9.68 cents, volatility used was 138.77%, risk free rate used was 4.16%, the options expire on 30 June 2011.

²² Share price on grant date was 16 cents, volatility and risk free rate used in valuation was 138.77% and 4.16% respectively, exercise price is \$1/\$1.2.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



30. Interests and remuneration of Key Management Personnel (Cont'd)

Performance shares

	Balance 1/7/2008	New issue	Balance 30/6/2009	New issue	Exercised	Lapsed	Balance 30/6/2010	Vested and unexercised at 30/6/10
Director								
Guy Burnett – tranche 1	-	-	-	1,500,000 ²³	(200,000)	(300,000)	1,000,000	200,000
Executives								
James Garton – tranche 1	-	1,500,000 ²⁴	1,500,000	-	(200,000)	(300,000)	1,000,000	200,000
James Garton – tranche 2	-	-	-	5,000,000 ²⁵	-	-	5,000,000	-
Senior employees collectively – tranche 1	-	1,200,000 ²⁶	1,200,000	-	(119,999)	(293,334)	786,667	199,999
Total	-	2,700,000	2,700,000	6,500,000	(519,999)	(893,334)	7,786,667	599,999

Tranche 1 performance criteria

40% of the performance shares vest in equal tranches at 31/12/2009, 30/06/2010 and 31/12/2010 for service, and 60% of the performance shares vest in equal tranches on;

- Positive Group cash generation from operations by 30 June 2010.
- EPS of A\$0.06 by 30 June 2011, and
- EPS of A\$0.15 by 30 June 2012.

Tranche 2 performance criteria

The performance shares vest in equal tranches at 1/7/2010, 31/12/2010 and 1/7/2011 for service

Refer to the Remuneration report for full details on key management personnel remuneration and benefits.

²³ Grant date was 19 October 2009, share price on grant date was 28.5 cents, fair value at grant date was 21.37 cents.

²⁴ Grant date was 25 June 2009, share price on grant date was 18.5 cents, fair value at grant date was 13.87 cents.

²⁵ Grant date was 30 March 2010, share price on grant date was 34.5 cents, fair value at grant date was 25.88 cents.

²⁶ Grant date was 25 June 2009, share price on grant date was 18.5 cents, fair value at grant date was 13.87 cents.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)



31. Related Parties

Transactions between related parties are on a normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

Other Related Parties

	2010 \$'000	2009 \$'000	2008 \$'000
Management fee charged to Mission Biotechnologies Sdn Bhd, a 100% owned subsidiary company	668	580	440
Management fee charged to Mission Biofuels Sdn Bhd, A 100% owned subsidiary company	332	290	-
Sale of Jatropha crude oil between Missions controlled subsidiaries	121	-	-
A Bansal, an independent contract and Board member who resigned on 24 June 2009	-	163	130
Short term unsecured, non-interest bearing working capital loan taken from Nathan Mahalingam	-	125	-
Short term unsecured, non-interest bearing working capital loan repayment to Nathan Mahalingam	-	(125)	-

32. Financial Instruments

Financial Risk Management

The group has a financial risk management policy in place and the financial risks are overseen by the Board. The group's financial instruments consist mainly of deposits with banks, secured loans, convertible notes, other financial assets, accounts receivable, accounts payable, and loans to and from subsidiaries.

The principle risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Fair value of financial instruments	Carrying amount \$'000	Fair Value \$'000
Financial assets		
Cash and cash equivalents	17,155	17,155
Other Financial Assets	26	26
Receivables (Current)	4,168	4,168
Receivables (Non-current)	4,321	4,321
Financial liabilities		
Trade and other payables	3,602	3,602
Current loans	624	624
Non-current loans	59,028	60,856

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

32. Financial Instruments (Cont'd)

The fair value of cash and cash equivalents, other financial assets, receivables, trade and other payables and current loans are short term instruments in nature whose carrying value is equivalent to fair value.

Non-current receivables are carried at a discounted value which reflects the fair value.

Non-current loans are carried at amortised costs, with the fair value being determined using a discounted cash flow model incorporating current commercial borrowing rates.

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating rate deposits, fixed rate convertible note debt and floating rate debt. For further details on interest rate risk refer to the table below under liquidity risk. The group main interest rate risk, being fair value interest rate risk, arises from the long term convertible note debt held by the parent.

Group sensitivity

At 30 June 2010, if interest rates had changed by ± 25 basis points, with all other variables held constant, the following financial impacts would have been recorded by the group;

- Effect on post tax profit – A\$ Nil million lower/higher (2009: A\$ Nil million lower/higher)
- Equity would have been – A\$ Nil lower/higher (2009: A\$ Nil million lower/higher)
- The fair value of convertible notes – A\$ 0.28 million lower/higher (2009: A\$0.4 million lower/higher)

Foreign currency risk

The group operates internationally through a number of subsidiaries and is thus exposed to fluctuations in foreign currencies, arising from the foreign currencies held in its bank accounts, the sale of goods in currencies other than the group's measurement currency, and the translation of results from investments in foreign operations. The foreign exchange exposures are primarily to the Indian Rupee, Malaysian Ringgit and the US dollar.

Foreign exchange risks arising from the sale of products are not hedged.

Foreign currency risks arising from commitments in foreign currencies are managed by holding cash in that currency. Foreign currency translation risk is not hedged, with translation differences being reflected in the foreign currency translation reserve.

Group sensitivity

At 30 June 2010, if foreign currencies had changed by $\pm 10\%$, with all other variables held constant, the following financial impacts would have been recorded by the group;

Effect on post tax profit – A\$1.0 million lower/ A\$1.0 higher (2009: A\$1.0 million lower/ A\$1.2 higher)

Equity would have been – A\$1.0 million lower/ A\$1.0 higher (2009: A\$1.0 million lower/ A\$1.2 higher)

Credit risk

Credit risk arises from the sale of biodiesel, Jatropha Curcas saplings and cash held at period end.

Cash is only held in accredited banks and credit risk arising from the sale of biodiesel is managed through the use of Letter of Credits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

32. Financial Instruments (Cont'd)

Credit risk (Cont'd)

Credit risk arising from sales of *Jatropha Curcas* saplings is managed through the following approach:

Sales of *Jatropha Curcas* saplings to contract farmers are concluded after a detailed review of the suitability of the contract farmer and the proposed land to be used for contract farming. The sale is concluded via a Demand Cum Delivery Note, which states that the balance owing is at call by Mission Biofuels India Pvt Ltd,

A portfolio approach, where a large number of relatively low value sales (around AU\$220 per contract farmer, depending on the contract farming acreage) are made to a geographically disbursed series of contract farmers, Contract farmers are required to incur considerable expense to prepare the land, prior to delivery of saplings by Mission Biofuels India Pvt Ltd, and thus have significant incentive to ensure the crop is viable.

Mission Biofuels India Pvt Ltd has entered into contract farming agreements with each farmer to purchase back the oil seeds produced by the *Jatropha Curcas* saplings sold to the farmers. The *Jatropha Curcas* saplings have an estimated production life in excess of 30 years. Receivables are secured against these future contracted purchases of *Jatropha Curcas* seeds.

Mission Biofuels India Pvt Ltd has in place memorandums of understanding with a number of leading financial institutions in India who have expressed a desire to loan monies directly to the contract farmers to fund their working capital requirements. Disbursement of these loans will assist the farmers in repaying monies owed to Mission Biofuels India Pvt Ltd.

These financial institutions have formulated specific schemes of financing for *Jatropha* farming,

In addition, the National Bank for Agriculture and Rural Development (NABARD) of India (apex body for agricultural financing) has in place a standardised scheme of financing to farmers of *Jatropha Curcas*,

Several financial institutions, who do not have memoranda of understanding with the Company, have also disbursed loans to the contract farmers of the Company based on the standardized scheme stipulated by NABARD,

Disbursement of these loans to the farmers will enable them to repay the amounts owed to the Company.

Second Biodiesel plant guarantee

The parent entity has provided a corporate guarantee to the contractor of the second Biodiesel plant in place of the standard letter of credit originally placed at construction commencement.

Commodity Risk

The group is exposed to market prices of input costs into the production of biodiesel. The key raw material currently being used to manufacture biodiesel is crude palm oil. This risk is managed by negotiating 'cost plus a margin' sales contracts which minimises the groups exposure to variations in this key input cost.

Group sensitivity

At 30 June 2010, if the price of crude palm oil had changed by +/- 10%, with all other variables held constant, the following financial impacts would have been recorded by the group;

Effect on post tax profit – A\$ Nil lower/higher

Equity would have been – A\$ Nil lower/higher

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

32. Financial Instruments (Cont'd)

Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash is maintained.

Notes	Floating Interest Rate		Fixed Interest Rate				Non-Interest Bearing		Total		Weighted Average Interest Rate	
	Within 1 Year		1 to 5 years		Over 5 years							
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
Financial Assets:												
Cash and cash equivalents	17,155	16,247	-	-	-	-	-	-	17,155	16,247	-	-
Held to Maturity investments	26	1,242	-	-	-	-	-	-	26	1,242	0.0	0.1
Loans and Receivables	-	-	-	-	-	-	8,489	14,012	8,489	14,012	-	-
	17,181	17,489	-	-	-	-	8,489	14,012	25,670	31,501		
Financial Liabilities:												
Trade and other payables	-	-	-	-	-	-	3,602	8,890	3,602	8,890	-	-
Current debt	624	599	-	-	-	-	-	-	624	599	11.75	11.75
Non-current debt	-	-	-	59,028	56,651	762	-	-	59,028	57,413	4.23	4.23
	624	599	-	59,028	56,651	762	3,602	8,890	63,254	66,902		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

33. Parent entity information

Information relating to Mission NewEnergy Ltd:	2010	2009	2008
	\$'000	\$'000	\$'000
Current assets	13,445	13,398	4,068
Total assets	33,740	104,392	100,528
Current liabilities	422	1,519	684
Total liabilities	56,410	55,214	52,386
Net asset (deficit)/surplus	(22,670)	49,178	48,142
Issued capital	76,530	61,019	44,934
Retained loss	(109,888)	(21,268)	(7,219)
Share based payments reserve	1,542	281	1,281
Convertible notes reserve	9,146	9,146	9,146
Total shareholders' equity	(22,670)	49,178	48,142
(Loss)/profit of the parent entity	(88,636)	(25,043)	4,857
Total comprehensive income of the parent entity	(88,636)	(25,043)	4,857
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries *	7,769	13,453	8,572
Details of any contingent liabilities of the parent entity *	-	-	-
Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment.	969 ²⁷	-	-

* The parent entity has provided a corporate guarantee to the contractor of the second Biodiesel plant in place of the standard letter of credit originally placed at construction commencement.

²⁷ Being a letter of credit provided by the parent entity for the purchase of equipment by a subsidiary.

34. Impairment of loans and investments - Parent entity

	2010	2009	2008
	\$'000	\$'000	\$'000
Non-Current asset held for sale	161	161	161
Loans, receivables and advances to jointly controlled entity/subsidiary	242	242	242
Less: Cumulative Provision for impairment	(403)	(403)	(403)
Carrying value	-	-	-
Provision in the consolidated income statements	-	-	403

35. Non-current assets held for sale

On 2 May 2008 the Board resolved to sell Mission Agro Diesel (India) Pvt Ltd (MADIPL). Subsequently the Board has exercised an option to sell the groups shareholding in MADIPL to the remaining shareholders. However, as no firm outcome on the sale has been achieved, the Board considered it prudent for the group to fully provide for the carrying value of the investment.

36. Subsequent events

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Board, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

37. Prior period error

During the financial year ended 30 June 2010, a subsidiary in the Group uncovered an error in its assessment of deferred tax liabilities and assets and the recognition of a portion of the change in fair value of biological asset revenue recognised in 2008 that should have been recognised in 2007 .

Accordingly, the prior period's results have been restated to reflect the impact of these adjustments. This accounting adjustment has no impact on the cash flows of the group.

The net impact of the adjustment is as follows:

	30 June 2009 (as previously reported)	Adjustment	Revised 30 June 2009	30 June 2008 (as previously reported)	Adjustment	Revised 30 June 2008
Income Statement						
Sales Revenue	-	-	-	28,754	(1,143)	27,611
Tax	(1,817)	1,383	(434)	(641)	480	(161)
Net Profit attributable to members of the Parent entity	(25,043)	1,383	(23,660)	4,857	(663)	4,194
Statement of financial position						
Deferred tax liability	1,891	(1,863)	28	622	(480)	142
Retained earnings	(21,338)	1,863	(19,475)	2,424	480	2,904
				1 July 2007 (as previously reported)	Adjustment	Revised 1 July 2008
Opening retained earnings				(2,433)	1,143	(1,290)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D)

38. Company Details

The registered office of the company is
Mission NewEnergy Limited
Tempo Offices
Unit B9, 431 Roberts Road
Subiaco, WA 6008, Australia

The principal places of business are:

Australia	Mission NewEnergy Limited Head Office Unit 217, 396 Scarborough Beach Road Osborne Park, WA 6017, Australia
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Malaysia	Mission Biofuels Sdn Bhd C-26-05, Dataran 32 No. 2, Jalan 19/1 46300 Petaling Jaya Selangor Darul Ehsan Malaysia	Mission Biotechnologies Sdn Bhd C-26-05, Dataran 32 No. 2, Jalan 19/1 46300 Petaling Jaya Selangor Darul Ehsan Malaysia
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Mauritius	Mission Agro Energy Limited 2nd Floor, Fairfax House 21, Mgr Gonin Street Port Louis Republic of Mauritius
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India	Mission Biofuels (India) Pvt Ltd Shops nos. 1,2,3 Sun heights, Ground floor Gandhingar bridge Adi shankaracharyya marg Powai, Mumbai Maharashtra India, 400 076	Mission Agro Diesel (India) Pvt Ltd 608 Powai Plaza, Hiranandani Business Park Powai, Mumbai - 400076, India
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DIRECTORS' DECLARATION

Mission NewEnergy Limited and Controlled Entities
(ABN 63 117 065 719)

In the opinion of the Directors of Mission NewEnergy Ltd (the company):

1. the financial statements and notes, set out on pages 31 to 79, are in accordance with the Corporations Act 2001, including:
 - a. complying with Australian Accounting Standards (including Australian Accounting Interpretations); and
 - b. giving a true and fair view of the financial position of the group as at 30 June 2010 and of its performance, for the year ended on that date, and
 - c. the financial report also complies with International Financial Reporting Standards as disclosed in note 2.
2. the Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Managing Director and Finance Director/Chief Finance Officer for the financial year ended 30 June 2010.
3. in the director's 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.

This declaration is made in accordance with a resolution of the Board of Directors.



Nathan Mahalingam
Managing Director

Dated: 17 September 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MISSION NEWENERGY LIMITED



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Independent Auditor's Report To the Members of Mission NewEnergy Limited

Report on the financial report

We have audited the accompanying financial report of Mission NewEnergy Limited (the 'Company'), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MISSION NEWENERGY LIMITED (CONT'D)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Electronic presentation of audited financial report

This auditor's report relates to the financial report of Mission NewEnergy Limited and its controlled entities for the year ended 30 June 2010 included on the Company's web site.

The Company's directors are responsible for the integrity of its web site. We have not been engaged to report on the integrity of the Company's web site. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

- a the financial report of Mission NewEnergy Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Significant uncertainty regarding the carrying value of receivables in feedstock business

Without qualification to our opinion above, we draw attention to Notes 5 and 32 to the financial report regarding the credit risks associated with the receivables aggregating \$6.4 million arising from the sale of saplings by a subsidiary company to the contracted farmers in India and the estimates and assumptions used to assess the recoverability of the receivables. The amounts due on the sale of saplings become a debt due at call under the terms of the Demand Cum Delivery Note, or can be recovered from amounts payable on the future purchase of jatropha seeds produced by the farmers under the Contract Farming Agreements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MISSION NEWENERGY LIMITED (CONT'D)

The subsidiary company also has in place memorandums of understanding with a number of financial institutions to provide loans to farmers to settle the debts due on the sapling sales and/or to finance the farmers' ongoing agricultural activities. The financing arrangements have not progressed significantly due to various logistical issues and therefore, the extent to which the farmers will use/ will be able to use these financing facilities cannot be determined. The subsidiary company has classified debts due from farmers who have completed financing applications as current receivables and all others as non-current. Debts that are not recovered immediately through the bank financing arrangements are planned to be recovered through the offset against future purchase of adequate quantities of jatropha seeds from the farmers within the next five years.

The estimates and assumptions regarding the recoverability of receivables and the timing of settlement of the receivables have a significant risk of being different to actual outcomes, due to change in the economic, market and agricultural conditions and / or the events outlined above which may result in the carrying value of the receivables significantly exceeding their recoverable amounts.

Significant uncertainty regarding the carrying value of the Parent Entity's investment and loan in feedstock subsidiary

Without qualification to our opinion above, we draw attention to Note 5 to the financial report regarding the existence of uncertainties regarding the future profits and cash flows of the subsidiary casting significant doubt on the recoverability of the parent company's investment and loan advanced to the subsidiary which aggregate to \$20.9 million in value at 30 June 2010.

Significant uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to the statement of comprehensive income in the financial report which indicates that the consolidated entity incurred a net loss of \$93.5 million during the year ended 30 June 2010 and, as of that date, the consolidated entity's total liabilities exceeded its total assets by \$25.4 million. These conditions, along with other matters as set forth in Note 5(b), indicate the existence of a significant uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern.

Report on the remuneration report

We have audited the Remuneration Report included in pages 20 to 25 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the Remuneration Report of Mission NewEnergy Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M J Hillgrove
Director – Audit & Assurance
Perth, 17 September 2010

SHAREHOLDER INFORMATION

Twenty largest shareholders as at 14 September 2010

Name	Units	% of Units
CITICORP NOMINEES PTY LIMITED	128,074,353	45.64
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	52,858,950	18.84
MISSION EQUITIES SDN BHD	24,647,840	8.78
TIGER GLOBAL INVESTMENT PARTNERS III LP	16,000,000	5.70
NATIONAL NOMINEES LIMITED	11,899,987	4.24
NU EQUITY SOLUTIONS SDN BHD	7,042,240	2.51
MR NATHAN MAHALINGAM	2,666,666	0.95
RETRO ENERGY SDN BHD	2,521,120	0.90
MR PARANTAMAN RAMASAMY	2,501,400	0.89
MR WAYNE ALLAN MASTERTON + MRS ROSLYN JOYCE MASTERTON <THE MASTERTON S/F A/C>	2,104,006	0.75
MR JAMES GARTON	2,069,166	0.74
MR GUY BURNETT	2,066,666	0.74
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	2,040,189	0.73
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	1,487,225	0.53
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,055,045	0.38
ANZ NOMINEES LIMITED <CASH INCOME A/C>	951,675	0.34
BREMERTON PTY LTD <THE BARTLETT FAMILY FUND A/C>	791,603	0.28
MR KARTHIK SARMA	600,000	0.21
MR CLIVE BROWN + MRS CYNTHIA MARGARET BROWN <CLIVE BROWN FAMILY A/C>	550,000	0.20
TERRA DEVELOPMENTS PTY LTD <TERRA SUPER FUND NO 2 A/C>	522,500	0.19
TOTAL	262,450,631	93.54

SHAREHOLDER INFORMATION (CONT'D)

Distribution of equity securities as at 14 September 2010

Range	Total holders	Units
1 - 1,000	164	117,139
1,001 - 5,000	356	1,067,458
5,001 - 10,000	159	1,359,587
10,001 - 100,000	236	8,307,814
100,001 - 999,999,999	55	269,742,234
Rounding		
Total	970	280,594,232

There were 328 holders of 412,794 ordinary shares which were less than a marketable parcel of ordinary shares. A marketable parcel of shares is a value of less than \$500.00.

Voting rights

Ordinary fully paid shares carry voting rights of one vote per share.

Substantial Holders

The names of the substantial shareholders in the holding company's register at 14 September 2010 are set out below:

Name	Units
SOUTH FERRY #2 LP, ITS GENERAL PARTNERS ABRAHAM WOLFSON AND AARON WOLFSON, AND ITS PORTFOLIO MANAGER MORRIS WOLFSON	25,292,371
MCDERMOTT INDUSTRIES LTD	50,000,000
TIGER GLOBAL INVESTMENT PARTNERS III LP	16,000,00



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