NATURAL FUEL LIMITED & CONTROLLED ENTITIES

ACN 106 760 148

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

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Your directors present their report on the company for the financial year ended 30 June 2006.

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

John Hewson (Appointed 10 October 2006)
Richard Neil Selwood
Roger Stroud
Michael Pixley
Thomas McGellin (Resigned 10 October 2006)
Jerome Rowley (Appointed 15 September 2006)
Barry Eu (Appointed18 April 2006)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

INFORMATION ON DIRECTORS

DR JOHN HEWSON
Age 59
(Independent Non- Executive Chairman)

Dr Hewson holds a Bachelor of Economics (Hons) from Sydney University, MA from University of Saskatchewan and MA and PhD from John Hopkins University, USA.

Dr Hewson is an economic and financial expert with careers in academia, business, government, media and the financial system. A former Liberal Party leader and leader of the Federal Opposition, Dr Hewson brings an extensive background in economics and finance, having worked as an economist for the Australian Treasury, the Reserve Bank and the IMF. He is currently the special advisor to the Under Secretary of the United Nations and Chairman of Business Leaders Forum on Sustainable Development.

MR RICHARD SELWOOD
Age 60
(Chief Executive Officer)

Mr Selwood has many years experience across a broad range of industries, from manufacturing farm machinery to owning and running a farm machinery dealership group. His experience is at the ownership and board level. He has served on many boards, including manufacturing, mining and engineering companies. He brings over 30 years of commercial experience to the company.

Richard is a founding shareholder and director Natural Fuel Ltd.

MR ROGER STROUD
Age 56
(Non Executive Director)

Mr Stroud holds a Bachelor of Science, Sydney University and Bachelor of Arts (Econ) from Macquarie University.

He has extensive commercial and financial experience, gained from over 10 years working for an international merchant bank in Sydney. Mr Stroud held a number of directorships on various boards, including publicly listed mining and manufacturing companies. He is a founding director of Natural Fuel Ltd.

For the last few years he has formulated the biodiesel technology business. Roger is intimately involved and committed to the globalisation of the biodiesel industry.

MR MICHAEL PIXLEY
Age 49
(Executive Director)

Mr Pixley holds a Bachelor of Commerce from the University of Western Australia.

He is a merchant banker specialising in strategic corporate development, joint ventures and acquisitions. He has 20 years experience in the Asian business sector, and has extensive networks and relationships that provide the Company with access to key personnel in the government, corporate and private business sectors.

Mr Pixley was a Director of both listed and unlisted subsidiary companies in Australia and the United States, being responsible for corporate compliance, banking negotiations and legal interface.

MR THOMAS MCGELLIN
Age 53
(Non Executive Director - resigned 10 October 2006)

Co-founder of commercial diving enterprise. He participated in several Initial Public Offerings, predominantly in mining and technology. He currently holds board level positions on other non listed public companies.

MR JEROME ROWLEY
Age 58
(Independent Non Executive Director)

Mr Rowley is a fellow of the Australian Institute of Company Directors.

He has an extensive background in banking and brings invaluable commercial and financial expertise to the Company, particularly in advising with regards to funding arrangements. His key positions include Chief Executive of ABN Amro Australia and Head of Relationship Management and Structured Finance for ABN Amro Asia Pacific.

MR BARRY EU
Age 44
(Independent Non Executive Director)

Mr Eu holds a Bachelor of Science, Business Administration, from Pepperdine University, Malibu,, California.

Mr Eu has 20 years work experience as a senior marketing executive, entrepreneur and businessman. Key positions included Regional Marketing and Communications Director for TNT, and Deputy General Manager of the publicly listed luxury consumer company, The Hour Glass Limited. As a businessman, Mr Eu co-founded Pratesi (SEA) Pte Ltd, a distributor for exclusive Italian linene products in South East Asia.

MR MATHEW WHYTE
Age 44
(Company Secretary/Chief Financial Officer)

Mr Whyte is a CPA and Fellow of the Institute of Company Secretaries. He has over fifteen years commercial experience in the financial management and corporate affairs of public listed companies. He has held various senior executive positions as chief financial officer and company secretary of a number of Australian listed companies with overseas operations.

ATTENDANCE AT DIRECTOR MEETINGS

	NUMBER OF MEETINGS ELIGIBLE TO ATTEND	NUMBER OF MEETINGS ATTENDED
Roger Sydney Stroud	10	10
Michael Grant Pixley	10	9
Richard Neil Selwood	10	9
Thomas Paul McGellin	10	10
Barry Yee Chun Eu	3	Nil

PRINCIPAL ACTIVITIES

The principal activities of the Company during the financial year were the development and construction of biodiesel production facilities.

REVIEW OF OPERATIONS

The operating loss of the consolidated entity for the financial year after providing for income tax amounted to $15,407,225 (2005: $916,116).

Natural Fuel Limited was mainly engaged in construction of a biodiesel plant in Darwin with its 50% joint venture partner and progressing its development plans to commence construction of significant biodiesel plants in Singapore and Houston USA. No sales from trading took place during the financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the company's state of affairs occurring during the financial year included:

On 1 July 2005, Natural Fuel Limited ceased to control its then 100% subsidiary Natural Fuels Australia Limited (NFAL) when NFAL issued 18 million shares to Babcock Environmental Investments Limited for a purchase consideration of $18 million. (Refer Note 11)

On 8 August 2005, Natural Fuel Limited acquired the remaining 50% issued capital of Natural Fuel Pte Ltd, a previously associated Company in Singapore involved in biodiesel development. The Singapore project was at a relatively early stage of establishing a biodiesel business in Singapore, and has since achieved significant key milestones with the approval for pioneer tax free status for a 10 year period, finalisation of lease arrangements for a suitable site for the plant and entering into a contracts for the construction of a biodiesel plant and storage and terminal services on Julong Island in Singapore. (Refer to Note 11)

On 5 May 2006, Natural Fuel Limited increased its shareholding interest in Natural Fuel & Energy Inc Ltd (NFE Inc) in USA from 1.7% to 80% by the acquisition of 78.3% of the shares in NFE Inc at a cost of $31 million. The remaining 20% of NFE Inc was acquired post year end from minority shareholders at a cost of $5 million. A substantial proportion of the consideration paid for NFE Inc was satisfied by the issue of shares in Natural Fuel Limited at $2.10 per share with the share portion amounting to $27 million of the total cost of $36 million.

The goodwill associated with the acquisition of Natural Fuel & Energy, Inc represented the value to the Group of acquiring a biodiesel project in Houston, Texas at an advanced stage of commercial development and the synergies expected to be achieved from combining the Houston project with the other activities of the Group to increase the scale of operations and a establish a presence across key global energy markets.

Application of the requirements of the Australian Equivalents International Financial Reporting Standards (AIFRS) requires the Company to undertake impairment testing for the carrying value of the investment in NFE Inc under AASB 136 Impairment of Assets. Between the date of acquisition and balance date, events occurred which had a material adverse impact on the value of the goodwill related to the Houston Project and resulted in an impairment to the fair value of the goodwill for 100% of the acquisition being recognised in the income statement of the consolidated entities' for the year of $19,252,470.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS (CONT'D)

The main events and circumstances leading to the impairment loss were a significant increase in the contract price for the project capital construction cost together with an uptrend in the cost of feedstocks. The Directors have taken into account the current forecasts for the Houston Project, the outlook for the price of oil and cost of feedstock and other key economic drivers for the proposed biodiesel plant in determining the fair value of 100% of NFE Inc at $17 million at the date of this report. The impairment write down has no cash impact.

The Directors note that while the write down of intangibles for the Houston Project is required under the new financial reporting standards under AIFRS, at the same time the substantial increasing value of the Group's other biodiesel projects in Australia and Singapore cannot be recognised in the accounts. Notwithstanding the write down in the Houston Project at year end, the Project remains an important part of the Group's strategy to leverage its relationships with key suppliers and customers across a network of biodiesel operations in the main energy markets in the world.

LIKELY DEVELOPMENTS

Natural Fuel Limited is in advanced stages of an Initial Public Offering (IPO) with a Prospectus targeting to raise $110 million in capital for the Company. The primary purposes of these funds is for the development and equity contribution for the construction of a substantial biodiesel project in Singapore with an initial plant capacity of 600,000 MT of biodiesel per annum as well as progressing the development of the Houston project and other biodiesel project opportunities.

Likely developments in the operations of the company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Company.

ENVIRONMENTAL REGULATION

The Group is subject to environmental regulation, in respect of its biodiesel plant construction and production activities in Australia, and is in the process of applying for various construction permits and licences for its planned biodiesel manufacturing facilities in Singapore.

The Group's equity accounted associate, Natural Fuels Australia Limited, began construction in Darwin in early 2006, following the approval of the CEMP (Construction Environmental Management Plan) and ESCP (Erosion Sediment Control Plan). There were no material breaches of these approvals during the period under review. Natural Fuels Australia Limited has applied for and received an OEMP (Operational Environmental Management Plan) for the operation of the plant from the Northern Territory EPA.

DIVIDENDS

No dividends were paid or declared since the start of the financial year.

OPTIONS

As at the date of this report the company has on issue the following options over unissued ordinary shares:

NUMBER OF OPTIONS	EXPIRY DATE	EXERCISE PRICE ($)
8,800,000	30 June 2008	2.00
250,000	30 June 2008	3.00

No shares were issued on exercise of options during or since the end of the financial year.

All options over unissued shares have vested at the date of this report.

INDEMNITIES TO OFFICERS OR AUDITORS

Since the end of the financial year the Company has provided an indemnity with an initial limit of $30,000 to a director in relation to a legal action against a previous employee. Other than the above no indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the Company.

APPLICATIONS FOR COURT PROCEEDINGS

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 3 August 2006, Natural Fuel Limited raised $30 million (before costs of the issue) from the issue of 300,000 unsecured converting notes at a face value of $100.

The converting notes have the following key terms:

1) Covert to ordinary shares upon the successful IPO based on a conversion value of (face value) / (60% of the IPO price).
2) The converting notes have a mandatory conversion to ordinary shares on the IPO, and are not otherwise redeemable, except on a winding up.

As a condition of the converting note, the note holders must also subscribe for or procure subscription for an equivalent value of shares as the face value of their subscription at the full value of the IPO price. As the conversion ratio to ordinary shares specifically calculates a varying number of shares based on the IPO price, under AASB 132b(1) the converting note must be recognised as a financial liability and the $20 million net difference between the settlement value ($50 million) and face value ($30 million) will be included as a finance charge in the income statement for financial year ended 30 June 2007.

On 7 August 2006, Natural Fuel Limited acquired the share capital of the 20% minority interest in Natural Fuel & Energy Inc for cash consideration of $5.075 million, including legal fees. An impairment charge (Note 14) based on 100% ownership of the share capital of Natural Fuel & Energy Inc., has been recognised in the financial statements as at 30 June 2006.

On 25 August 2006, Natural Fuel Pte Limited entered into an agreement for a Terminal Services Agreement for a period of 20 years. The estimated cost of the contract to the consolidated entity is $204 million.

On 25 September 2006, Natural Fuel Pte Limited entered into an agreement for the design and construction of a biodiesel plant in Singapore. The estimated cost of the contract is $56 million.

Other than where stated, the financial effect of the above has not been recognised in the financial statements.

Other than the 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 Directors of the Company to affect substantially the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

NON-AUDIT SERVICES AND AUDITOR'S INDEPENDENCE DECLARATION

During the year, the Company's auditor has performed certain other services in addition to their statutory duties. The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with and did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

NON-AUDIT SERVICES AND AUDITOR'S INDEPENDENCE DECLARATION (CONT'D)

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 9.
Signed in accordance with a resolution of the Board of Directors:

ROGER SYDNEY STROUD
DIRECTOR

Dated this the 1st day of November 2006

CHARTERED
ACCOUNTANTS
& BUSINESS
ADVISORS

A MEMBER OF
MOORES ROWLAND
INTERNATIONAL

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Thinking ahead

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AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there has been:

(i) no contraventions of the auditor's independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

BENTLEYS MRI PERTH PARTNERSHIP

JEFF W VIBERT
PARTNER

Dated at Perth this 1sr day of November 2006

		CONSOLIDATED		COMPANY	
	NOTE	2006 $	2005 $	2006 $	2005 $
REVENUE	2	**140,000**	-	**140,000**	-
Share of net profits of associate accounted for using the equity method	12	**(1,063,302)**	-	**-**	-
Gain on deconsolidation of controlled entity	11	**897,709**	-	**-**	-
Gain in fair value of investment on loss of control of controlled entity	12	**8,407,857**	-	**-**	-
Depreciation and amortisation expenses	3(a)	**(37,197)**	(3,462)	**(25,830)**	(2,654)
Net finance costs	3(e)	**131,655**	(87,818)	**131,258**	17,289
Gain on disposal of Intellectual Property and development costs of biodiesel production facility to controlled entity.		**-**	-	**-**	515,981
Employee benefits expense	3(d)	**(1,265,046)**	-	**(1,041,674)**	-
Consulting fee expense	3	**(146,749)**	(469,138)	**(133,778)**	(367,030)
Impairment of goodwill	14	**(19,252,470)**	-	**-**	-
Impairment of investment in subsidiary	14	**-**	-	**(19,252,470)**	-
Other expenses		**(737,542)**	(355,698)	**(451,902)**	(181,993)
LOSS BEFORE TAX	3	**(12,925,085)**	(916,116)	**(20,634,396)**	(18,407)
Tax expense	4	**(2,522,357)**	-	**-**	-
NET LOSS		**(15,447,442)**	(916,116)	**(20,634,396)**	(18,407)
Loss attributable to minority interests	21	**40,217**	-	**-**	-
LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	21	**(15,407,225)**	(916,116)	**(20,634,396)**	(18,407)

The accompanying notes form part of these financial statements.

BALANCE SHEET
FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
ASSETS					
CURRENT ASSETS					
Cash & cash equivalents	5	**1,407,767**	1,069,298	**1,257,755**	509,498
Trade & other receivables	6	**20,337**	320,068	**14,812**	284,473
Other current assets	7	**2,423,908**	15,800	**2,422,071**	-
TOTAL CURRENT ASSETS		**3,852,012**	1,405,166	**3,694,638**	793,971
NON-CURRENT ASSETS					
Trade and other receivables	9	**-**	201,610	**742,555**	201,610
Deferred finance costs	15	**867,752**	-	**-**	-
Investments in subsidiaries	10(a)	**-**	-	**15,046,339**	801,289
Investments accounted for using the equity method	12	**8,145,834**	-	**801,279**	-
Other financial assets	10(b)	**-**	310,714	**-**	310,714
Property, plant and equipment	8	**101,778**	19,676	**59,367**	15,255
Development costs	13	**2,071,584**	1,812,499	**-**	-
Intangible assets	14	**14,006,642**	1,080,000	**-**	1,080,000
TOTAL NON-CURRENT ASSETS		**25,193,590**	3,424,499	**16,649,540**	2,408,868
TOTAL ASSETS		**29,045,602**	4,829,665	**20,344,178**	3,202,839
LIABILITIES					
CURRENT LIABILITIES					
Trade & other payables	16	**3,900,742**	536,268	**2,507,615**	41,840
Short term borrowings	17	**211,840**	2,030,107	**-**	-
TOTAL CURRENT LIABILITIES		**4,112,582**	2,566,375	**2,507,615**	41,840
NON-CURRENT LIABILITIES					
Deferred tax liability	18	**2,522,357**	-	**-**	-
TOTAL NON-CURRENT LIABILITIES		**2,522,357**	-	**-**	-
TOTAL LIABILITIES		**6,634,939**	2,566,375	**2,507,615**	41,840
NET ASSETS		**22,410,663**	2,263,290	**17,836,563**	3,160,999
EQUITY					
Issued capital	19	**38,268,401**	3,692,891	**38,268,401**	3,692,891
Reserves	21	**1,137,088**	376,000	**1,110,450**	376,000
Accumulated losses	21	**(17,212,826)**	(1,805,601)	**(21,542,288)**	(907,892)
Minority equity interests	21	**218,000**	-	**-**	-
TOTAL EQUITY		**22,410,663**	2,263,290	**17,836,563**	3,160,999

The accompanying notes form part of these financial statements.

NATURAL FUEL LIMITED & CONTROLLED ENTITIES
ACN 106 760 148
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

CONSOLIDATED	ISSUED CAPITAL $	ACCUMULATED LOSSES $	OTHER RESERVES $	MINORITY EQUITY INTERESTS $	TOTAL $
BALANCE AT 1 JULY 2004	897,812	(889,485)	282,000	-	290,327
Loss attributable to members of the parent entity	-	(916,116)	-	-	(916,116)
Shares issued during year	2,795,079	-	-	-	2,795,079
Option reserve on recognition of cost of options issued	-	-	94,000	-	94,000
BALANCE AT 30 JUNE 2005	**3,692,891**	**(1,805,601)**	**376,000**	**-**	**2,263,290**
BALANCE AT 1 JULY 2005	3,692,891	(1,805,601)	376,000	-	2,263,290
Allocation to minority interests upon acquisition	-	-	-	250,267	250,267
Shares issued during the year	34,575,510	-	-	-	34,575,510
Option reserve on recognition of cost of options issued	-	-	734,450	-	734,450
Loss attributable to members of the parent entity	-	(15,407,225)	-	-	(15,407,225)
Loss attributable to minority shareholders	-	-	-	(40,217)	(40,217)
Foreign exchange differences on translation	-	-	26,638	7,950	34,588
BALANCE AT 30 JUNE 2006	38,268,401	(17,212,826)	1,137,088	218,000	22,410,663

COMPANY	ISSUED CAPITAL $	ACCUMULATED LOSSES $	OTHER RESERVES $	MINORITY EQUITY INTERESTS $	TOTAL $
BALANCE AT 1 JULY 2004	897,812	(889,485)	282,000	-	290,327
Loss attributable to members of the parent entity	-	(18,407)	-	-	(18,407)
Shares issued during year	2,795,079	-	-	-	2,795,079
Option reserve on recognition of bonus element of options	-	-	94,000	-	94,000
BALANCE AT 30 JUNE 2005	3,692,891	(907,892)	376,000	-	3,160,999
BALANCE AT 1 JULY 2005	3,692,891	(907,892)	376,000	-	3,160,999
Shares issued during the year	34,575,510	-	-	-	34,575,510
Option reserve on recognition of cost of options issued	-	-	734,450	-	734,450
Loss attributable to members of the parent entity	-	(20,634,396)	-	-	(20,634,396)
BALANCE AT 30 JUNE 2006	**38,268,401**	**(21,542,288)**	**1,110,450**	**-**	**17,836,563**

The accompanying notes form part of these financial statements.

	NOTE	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from services provided		**130,000**	-	**130,000**	-
Payments to suppliers and employees		**(1,024,884)**	(568,365)	**(851,497)**	(661,875)
Interest received		**131,655**	17,289	**131,258**	17,289
Finance costs paid		**-**	(30,107)	**-**	-
Net cash/(used in) operating activities	27a	**(763,229)**	(581,183)	**(590,239)**	(644,586)
CASH FLOW FROM INVESTING ACTIVITIES					
Payment for development expenses		**(820,980)**	(1,528,480)	**-**	-
Loans to investment entities		**-**	(383,568)	**(358,987)**	(383,568)
Payment for property, plant and equipment		**(97,543)**	(13,806)	**(71,942)**	(8,577)
Proceeds from disposal of non-current assets		**2,000**	-	**2,000**	800,000
Payment for investments		**(3,765,233)**	(1,392,003)	**(3,765,233)**	(2,192,003)
Refunded deposits		**100,000**	-	**100,000**	-
Cash disposed on deconsolidation	11	**(559,800)**	-	**-**	-
Cash acquired on acquisition of investments	11	**605,631**	-	**-**	-
Net cash/(used in) investing activities		**(4,535,925)**	(3,317,857)	**(4,094,162)**	(1,784,148)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		**5,432,657**	2,795,078	**5,432,657**	2,795,078
Proceeds from borrowings		**204,966**	2,030,107	**-**	-
Net cash provided by financing activities		**5,637,623**	4,825,185	**5,432,657**	2,795,078
Net increase in cash held		**338,469**	926,145	**748,257**	366,344
Cash at beginning of year		**1,069,298**	143,153	**509,498**	143,154
Cash at end of year	5	**1,407,767**	1,069,298	**1,257,755**	509,498

Details of non-cash transactions 27b

The accompanying notes form part of these financial statements.

The financial report of Natural Fuel Limited for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 1 November 2006.

The financial report covers Natural Fuel Limited ("the company" or "the parent entity") as an individual parent entity and Natural Fuel Limited and controlled entities as a consolidated entity. Natural Fuel Limited is a company limited by shares, incorporated and domiciled in Australia.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The general purpose financial report has been prepared in accordance with the requirements of Australian Accounting Standards, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS).

The report is also prepared on an accruals basis and is based on historic costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

The following material accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this report.

(b) Statement of compliance

The financial report which covers the consolidated entity and the parent company complies with Australian Accounting Standards stated in 1a, which include Australian Equivalents to International Financial Reporting Standards ('AIFRS').

Natural Fuel Limited and controlled entities, and Natural Fuel Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005. In accordance with the requirements of AASB 1: First-time Adoption of Australian equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied.

These consolidated accounts are the first financial statements of Natural Fuel Limited to be prepared in accordance with Australian equivalents to IFRS. The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entities have however elected to adopt the exemptions available under AASB 1 relating to AASB132: Financial Instruments: Disclosure and Presentation, and AASB 139 Financial Instruments: Recognition and Measurement. Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in note 33.

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Natural Fuel Limited and its controlled entities, Natural Fuel Pte Ltd, Natural Fuel Energy Inc, and its 50% equity interest in Natural Fuels Australia Limited as at 30 June 2006 ('the consolidated entity").

A controlled entity is any entity controlled by Natural Fuel Limited whereby Natural Fuel Limited has the power to control the financial and operating policies of another entity so as to obtain benefits from its activities.

The financial statements of the controlled entity are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions between entities in the consolidated entity, including any capitalised profits or losses, have been eliminated on consolidation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Where a controlled entity has entered or left the consolidated entity during the year its 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.

(d) Significant Accounting Judgment, Estimates and Assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill and intangibles with indefinite useful lives:

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 14.

Share-based payment transactions:

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Binomial valuation model, using the assumptions detailed in Note 20.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using a Binomial valuation formula taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 20.

(e) Foreign Currency Translation

Both the functional and presentation currency of Natural Fuel Limited and its Australian controlled entity is Australian dollars. Subsidiaries based in Singapore and the United States use local currency as functional currency for reporting purposes.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences in the consolidated financial report are taken to the income statement.

(f) Property, Plant and Equipment

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

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Subsequent costs are included in the asset's carrying amount or capitalised 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.

Increases in the carrying amount arising on any revaluation of property, plant and equipment are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement.

Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Impairment
The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement as a seperate line item.

Depreciation
The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the consolidated entity 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.

The depreciation rates used for each class of depreciable assets are:

- Plant & Equipment - 10 - 25%

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(g) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Intangible Assets

Acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at a fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the 'depreciation and amortisation' line item.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use; or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.
Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 114 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(j) Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimation for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(k) Trade and Other Payables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Accounting policies applicable for the year ending 30 June 2005
Trade payables and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

(l) Cash and Cash Equivalents

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

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecongnised and as well as through the amortisation process.

(n) Provisions

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

(o) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Sale of Goods
Revenue from the sale of goods is recognised upon the delivery of goods to customers.

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

Services
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).

(p) Income Tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:
- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:
- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss; and

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(q) 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 balance sheet are shown inclusive of GST.

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

(r) Derivative Financial Instruments and hedging

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for derivative financial instruments and hedging applicable for the years ended 30 June 2006 and 30 June 2005.

Recognition
Financial instruments are initially measured at cost 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. Derivatives are also categorised as held for trading unless they are designated as hedges. 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

Financial liabilities
Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments
Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

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
At each reporting date, the consolidated entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(s) Impact of Adoption of AIFRS

There were no material differences, other than disclosed at Note 33, to the total equity and profit before tax for the consolidated entity as at 30 June 2005 as reported under previous Australian Generally Accepted Accounting Principles ("AGAAP") following the adoption of AIFRS.

There were no material differences between the cash flow statement presented under AIFRSs and the cash flow statement presented under AGAAP.

(t) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs - refer Note 1(g).

Finance leased assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(u) Impairment of Financial Assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(iii) Available-for-sale investments
If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(v) Investment in Associate

The Group's investment in its associate is accounted for using the equity method of accounting in the consolidated financial statements. The associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this in the consolidated statement of recognised income and expense.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(w) Investments and Other Financial Assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006
Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Financial assets at fair value through profit or loss
Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(iii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments
Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(x) Employee Leave Benefits

(i) Wages, salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(y) Share-based Payment Transactions

(i) Equity settled transactions:
The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in Note 20.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Natural Fuel Limited (market conditions), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(z) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	NOTE	CONSOLIDATED 2006	CONSOLIDATED 2005	COMPANY 2006	COMPANY 2005
2. REVENUE		**$**	**$**	**$**	**$**
Consulting fee income		**140,000**	-	**140,000**	-
3. LOSS BEFORE TAX					
The loss before income tax expense has been determined after:					
a. Expenses					
Depreciation of property, plant and equipment	8	**37,197**	3,462	**25,830**	2,654
Remuneration of auditor					
- audit of financial report and other	29	**57,308**	25,655	**53,261**	10,655
Rental expense on operating leases					
- minimum lease payments		**51,481**	30,247	**13,923**	30,247
b. Revenue and Net Gains					
Net gain on disposal of intellectual property and development assets		-	-	-	515,981
c. Significant Revenues and Expenses					
Professional consultants fees		**146,749**	375,138	**133,778**	273,030
Add: Fair value of options granted as remuneration		-	94,000	-	94,000
		146,749	469,138	**133,778**	367,030
Gain on deconsolidation of controlled entity	11	**897,709**	-	-	-
Gain in fair value of investment on loss of control of controlled entity	12	**8,407,857**	-	-	-
d. Employee Benefits Expense					
Wages and salaries		**304,591**	-	**194,543**	-
Director fees		**179,324**		**66,000**	-
Superannuation		**37,181**	-	**37,181**	-
Annual leave expense		**9,500**	-	**9,500**	-
Fair value of options granted as remuneration		**734,450**	-	**734,450**	-
		1,265,046	-	**1,041,674**	-
e. Net Finance Costs					
Interest received		**131,655**	17,289	**131,258**	17,289
Interest paid		-	(105,107)	-	-
		131,655	(87,818)	**131,258**	17,289

f. Gain on deconsolidation of controlled entity

This has arisen from Natural Fuel Limited's interest in Natural Fuels Australia Limited being reduced from a wholly owned subsidiary to associated company upon sale of 50% of its interest on 1 July 2005.

4. INCOME TAX EXPENSE

	NOTE	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
(a) Income tax expense					
Current tax		-	-	-	-
Deferred tax		2,522,357	-	-	-
		2,522,357	-	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable.					
Loss from continuing operations before income tax expense		**(12,925,085)**	(916,116)	**(20,634,396)**	(18,407)
Tax at the Australian tax rate of 30% (2005 - 30%)		**(3,877,526)**	(274,835)	**(6,190,319)**	(5,522)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:					
Goodwill impairment		**5,775,741**	-	**5,775,741**	-
Share based payments		**220,335**	28,200	**220,335**	28,200
Entertainment		**891**	1,837	**891**	1,837
Non-deductible expense		**5,573**	3,328	**5,573**	3,328
Sundry items		**250**	20	**250**	20
		6,002,789	33,384	**6,002,789**	27,862
Difference in overseas tax rates		**30,163**			
Piror year tax losses not recognised now recouped		-	(39,110)	-	(39,110)
Unrecognised tax losses and temporary differences		**366,930**	**280,561**	**187,529**	16,771
Income tax expense		**2,522,357**	-	-	-
(c) Amounts recognised directly in equity					
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity					
Deferred tax liability directly debited to equity		-	-	-	-
		-	-	-	-
(d) Tax losses					
Unused tax losses for which no deferred tax assets has been recognised		**1,354,897**		**1,049,715**	
Potential tax benefit @ 30% and 15%		**360,692**	-	**314,915**	-

The unused tax losses were incurred in Australia and United States.

	Note	Consolidated 2006 $	Consolidated 2005 $	Company Note	Company 2006 $
(e) Unrecognised temporary differences					
Temporary differences which have not been recognised					
Capital raising cost		**47,339**	-	**47,339**	-
Accruals		**34,500**	8,000	**34,500**	8,000
Furniture and fixture		**1,967,421**	131	**(6,388)**	131
		2,049,260	8,131	**75,451**	8,131
Unrecognised deferred tax asset relating to the above temporary differences		**371,522**	2,439	**22,635**	2,439

5. CASH AND CASH EQUIVALENTS

Cash at Bank	**1,323,520**	1,069,298	**1,207,755**	509,497
Monies on deposit	**84,247**	-	**50,000**	-
Total cash and cash equivalents per cash flow statement	**1,407,767**	1,069,298	**1,257,755**	509,497

Deposits comprise short term money market deposits on fixed interest facilities earning interest to 5.42%. Cash at bank has no fixed maturity date and earns interest at variable rates up to 4.75%.

6. TRADE AND OTHER RECEIVABLES

CURRENT

Deposit	-	100,000	-	100,000
Other debtors	**20,337**	38,110	**14,812**	2,515
Loans to associated companies	-	181,958	-	181,958
	20,337	320,068	**14,812**	284,473

Trade and other receivables are non-interest bearing and are generally settled on 30 day terms.

	Note	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
7. Other Assets					
CURRENT					
Prepayments		**3,620**	15,800	**1,783**	-
Prepaid investment acquisition costs*		**2,420,288**	-	**2,420,288**	-
		2,423,908	15,800	**2,422,071**	-

* Costs associated with the acquisition of the remaining 20% minority interest of Natural Fuel & Energy Inc.

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
8. Property, Plant and Equipment				
Office equipment				
Cost brought forward	**23,794**	9,989	**18,565**	9,989
Additions	**53,505**	19,827	**69,942**	14,598
Assets recognised on acquisition of subsidiaries	**28,709**	-	-	-
Assets derecognised on deconsolidation	**(5,229)**	-	-	-
Disposals	-	(6,022)	-	(6,022)
Cost carried forward	**100,779**	23,794	**88,507**	18,565
Accumulated depreciation brought forward	**(4,118)**	(656)	**(3,310)**	(656)
Depreciation charge for year	**(27,638)**	(3,462)	**(25,830)**	(2,654)
Depreciation recognised on acquisition of subsidiaries	**(532)**	-	-	-
Depreciation derecognised on deconsolidation	**808**	-	-	-
Accumulated depreciation carried forward	**(31,480)**	(4,118)	**(29,140)**	(3,310)
Total Office equipment	**69,299**	19,676	**59,367**	15,255

8. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	NOTE	CONSOLIDATED 2006	CONSOLIDATED 2005	COMPANY 2006	COMPANY 2005
Plant & equipment		$	$	$	$
Cost brought forward		-	-	-	-
Additions		23,633	-	-	-
Cost carried forward		23,633	-	-	-
Accumulated depreciation brought forward		-	-	-	-
Depreciation charge for year		(3,935)	-	-	-
Accumulated depreciation carried forward		(3,935)	-	-	-
Total Plant and Equipment		19,698	-	-	-
Property improvements					
Cost brought forward		-	-	-	-
Additions		18,405	-	-	-
Cost carried forward		18,405	-	-	-
Accumulated depreciation brought forward		-	-	-	-
Depreciation charge for year		(5,624)	-	-	-
Accumulated depreciation carried forward		(5,624)	-	-	-
Total Property improvements		12,781	-	-	-
Total Property, plant & equipment					
Cost brought forward		23,794	9,989	18,565	9,989
Additions		95,543	19,827	69,942	14,598
Assets recognised on acquisition of subsidiaries		28,709	-	-	-
Assets derecognised on deconsolidation		(5,229)	-	-	-
Disposals		-	(6,022)	-	(6,022)
Cost carried forward		142,817	23,794	88,507	18,565

8. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	NOTE	CONSOLIDATED 2006	CONSOLIDATED 2005	COMPANY 2006	COMPANY 2005
		$	$	**$**	$
Accumulated depreciation brought forward		**(4,118)**	(656)	**(3,310)**	(656)
Depreciation charge for year		**(37,197)**	(3,462)	**(25,830)**	(2,654)
Depreciation recognised on acquisition of subsidiaries		**(532)**	-	**-**	-
Depreciation derecognised on deconsolidation		**808**	-	**-**	-
Eliminated on disposal		**-**		**-**	
Accumulated depreciation carried forward		**(41,039)**	(4,118)	**(29,140)**	(3,310)
Total Property, plant & equipment		**101,778**	19,676	**59,367**	15,255

9. NON CURRENT TRADE & OTHER RECEIVABLES

	CONSOLIDATED 2006	CONSOLIDATED 2005	COMPANY 2006	COMPANY 2005
Loans to associated and other companies:				
Natural Fuel Pte Ltd	**-**	201,610	**645,080**	201,610
Natural Fuels & Energy Inc.	**-**	-	**97,475**	-
	-	201,610	**742,555**	201,610

10. INVESTMENTS IN SUBSIDIARIES AND OTHER FINANCIAL ASSETS

The consolidated financial statements of Natural Fuel Limited incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies:

	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING* 2006	EQUITY HOLDING* 2005
Parent			**%**	%
Natural Fuel Ltd	Australia	Ordinary	**-**	-
Subsidiaries				
Natural Fuel Australia Ltd***	Australia	Ordinary	**50**	100
Natural Fuel Asia Ltd	Australia	Ordinary	**100**	100
Natural Fuel Pte Ltd	Singapore	Ordinary	**100**	50
Natural Fuel & Energy Inc	United States of America	Ordinary	**80**	-
		Preference **	**100**	14

* The proportion of ownership interest is equal to the proportion of voting power held

** Preference shares carry equal voting rights to ordinary shares

*** Control of the company was lost as at 1 July 2005. Since that date the investment has been equity accounted.

10. INVESTMENTS IN SUBSIDIARIES AND OTHER FINANCIAL ASSETS (CONT'D)

	NOTE	CONSOLIDATED		COMPANY	
		2006	2005	2006	2005
		$	$	$	$
a) Investments in subsidiaries					
Available for sale:					
Natural Fuel Asia Ltd		-	-	**10**	10
Natural Fuel Pte Ltd		-	-	**3,121,302**	-
Natural Fuel & Energy Inc.		-	-	**11,925,028**	-
Natural Fuel Australia Ltd		-	-	**-**	801,279
		-	-	**15,046,340**	801,289
b) Other financial assets					
Available for sale:					
Natural Fuel Pte Ltd		-	40,450	-	40,450
Natural Fuel & Energy Inc.		-	270,264	-	270,264
		-	310,714	-	310,714

11. BUSINESS COMBINATIONS

Acquisition of Natural Fuel Pte Ltd

(a) Summary of acquisition

On 17 August 2005 the parent entity acquired the remaining 50% of the issued share capital of Natural Fuel Pte Ltd. On this date the parent entity increased its shareholding from 50% to 100% ownership and obtained control over the subsidiary. Investments in associated companies were not equity accounted for the year ended 30 June 2005 or to the date of control, as the impact would have been immaterial (investment in the parent's books at 30 June 2005 was $1,120,450*). Consequently the acquisition details below include consideration for the 100% ownership interest.

Natural Fuel and Energy Pte Ltd's activities centre around the development and planned production of a biodiesel plant in Singapore with an initial capacity of 600,000 MT of biodiesel per annum.

The acquired business contributed a loss of $331,867 to the group for the period from 17 August 2005 to 30 June 2006. The impact on the combined entity's profit and loss as though the acquisition date had been at the beginning of the period is immaterial, no revenue was earned during the period by this subsidiary.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	NUMBER OF SHARES ISSUED	$
Purchase consideration:		
Fair value of shares issued	3,800,000	3,080,000
Cash		40,450
Direct costs relating to the acquisition		852
		3,121,302
Fair value of net identifiable assets acquired (refer to (c) below)		38,622
Goodwill		3,082,680

11. BUSINESS COMBINATIONS (CONT'D)

Acquisition of Natural Fuel Pte Ltd (Continued)

(a) Summary of acquisition (Continued)

The goodwill associated with Natural Fuel Pte Limited represented the value of the development work which had been undertaken on the establishment of a biodiesel project in Singapore at the date of acquisition. The Singapore project was at a relatively early stage of development and had achieved key milestones with the approval for pioneer status for a 10 year period and finalisation of lease arrangements for a suitable site for the plant.

* This value includes the correction of an error noted in the previous financial year. Intangible intellectual property rights amounting to $1,080,000 were recorded in the previous year's financial statements. This balance is more appropriately classified as an investment and the error has been corrected by restating each of the affected financial statement line items for the prior year, as described above.

(b) Purchase consideration

	NOTE	CONSOLIDATED		COMPANY	
		2006	2005	2006	2005
		$	$	$	$
Inflow of cash on acquisition of subsidiary					
Cash consideration		**40,450**			
Less: Balances acquired					
Cash balance acquired		**389,209**	-	-	-
Inflow of cash		**348,759**	-	-	-

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	ACQUIREE'S CARRYING AMOUNT *
Cash	389,209
Receivables	11,588
Property, plant and equipment	28,177
Development costs	9,600
Borrowings	(399,952)
Net assets	38,622

* There was no difference between the fair value of assets and liabilities received to the carrying amounts on acquisition.

(d) Revision in purchase price allocation

The initial purchase price allocation for the acquisition of the remaining 50% of Natural Fuel Pte Limited as at 31 December 2005 quantified the value of the 2 million shares issued as consideration by the parent entity at an amount of 25 cents per share. During the six months ended 30 June 2006, management completed the purchase price allocation and identified an error in the initial quantification of the value of the purchase consideration in that the fair value of the shares issued by the parent entity was $1 per share based on other capital raisings at around the time of the acquisition in August 2005. As a result goodwill on the acquisition of the remaining 50% interest increased by $1.5 million.

11. BUSINESS COMBINATIONS (CONT'D)

Acquisition of Natural Fuel Energy Inc.

(a) Summary of acquisition

On 5 May 2006, the parent entity acquired 78% of the issued share capital of Natural Fuel Energy Inc (at 30 June 2005 the entity held 14% of preference shares amounting to 2% control in the company). On this date the parent entity increased its shareholding from 2% to 80% ownership and obtained control over the subsidiary. The acquisition details below include consideration for the full 80% ownership interest.

Natural Fuel and Energy Inc's activities centre around the development of a biodiesel plant located in Houston, Texas with a planned capacity of 130,000 metric tonnes per annum.

The acquired business contributed a loss of $201,086 to the group for the period from 5 May 2006 to 30 June 2006. The total impact on the combined entity's profit and loss as though the acquisition date had been at the beginning of the period is a loss of $1,005,133, no revenue was earned during the period by this subsidiary.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	NUMBER OF SHARES ISSUED	$
Purchase consideration:		
Cash		3,984,452
Fair value of shares issued*	12,925,168	27,142,853
Direct costs relating to the acquisition		50,193
		31,177,498
Fair value of net identifiable assets acquired (refer to (c) below)		1,001,067
Goodwill		30,176,431

* The fair value of shares issued as consideration for the acquisition of Natural Fuel & Energy Inc. was determined by the prevailing share price as evidenced by other share issues near the date of issue.

The goodwill associated with Natural Fuel & Energy Inc represented the value to the Group of acquiring a biodiesel project in Houston, Texas at an advanced stage of commercial development and the synergies expected to be achieved from combining the Houston project with the other activities of the Group to increase the scale of operations and a establish a presence across key global energy markets. Between the date of acquisition and balance date, events occurred which had a material adverse impact on the value of the goodwill related to the Houston project. See note 14 for details of impairment of goodwill.

(b) Purchase consideration	NOTE	CONSOLIDATED		COMPANY	
Outflow of cash on acquisition of subsidiary		**2006**	**2005**	**2006**	**2005**
		$	**$**	**$**	**$**
Cash consideration		**3,984,452**		**3,984,452**	
Less: Balances acquired					
Cash		**(216,422)**	-	**-**	-
Outflow of cash		**3,768,030**	-	**3,984,452**	-

11. BUSINESS COMBINATIONS (CONT'D)

Acquisition of Natural Fuel Energy Inc (Cont'd)

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	ACQUIREE'S CARRYING AMOUNT *
	$
Cash	216,422
Receivables	32,548
Development costs	1,241,004
Accounts payable	(238,641)
Net assets	1,251,333
Minority interest	(250,266)
Net identifiable assets acquired	1,001,067

* There is no difference between the fair value of assets and liabilities received to the carrying amounts on acquisition.

Deconsolidation of Natural Fuels Australia Limited

On 1 July 2005 Natural Fuel Limited ceased to control its then 100% subsidiary, Natural Fuels Australia Limited by the virtue of the issue of ordinary shares by the subsidiary to a third party. As a result Natural Fuel Limited has accounted for its investment since that date using the equity method subsequent to deconsolidation.

Assets and liabilities deconsolidated as at 1 July 2005:	**$**
Cash and cash equivalents	(559,800)
Other current assets	(51,395)
Property, plant and equipment	(4,421)
Development costs	(1,812,499)
Investment in subsidiary	801,279
Other non-current liabilities	494,428
Short term borrowings	2,030,117
Net gain on deconsolidation	897,709

12. INVESTMENT IN ASSOCIATE

(i) Carrying amounts
Information relating to associates is set out below.

	OWNERSHIP INTEREST	
	2006	2005
	%	%
Natural Fuel Australia Ltd	**50**	100

	CONSOLIDATED		COMPANY	
	2006	**2005**	**2006**	**2005**
	$	$	$	$
Investment in Natural Fuel Australia Ltd	**8,145,834**	-	**801,279**	-
	8,145,834	-	**801,279**	-

12. INVESTMENT IN ASSOCIATE (CONT'D)

Investments in associated companies were not equity accounted for the year ended 30 June 2005 as the impact would be immaterial.

At 30 June 2005 Natural Fuels Australia Limited was a 100% owned subsidiary of Natural Fuel Limited. The investment in this entity has been accounted for using the equity method since the dilution of the shareholding in the previously controlled subsidiary, at 1 July 2005. This result has arisen through the issuance of additional shares in the entity to a third party for $18,000,000.

The above associate is incorporated in Australia and its principal activity is the development of a biodiesel plant in Darwin, Australia.

(ii) Movements in carrying amounts

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $
Carrying amount at the beginning of the financial year	-	-
Cost of investment recognised as equity accounted during the financial year	**801,279**	-
Fair value increase of investment recognised as equity accounted during the financial year	**8,407,857**	-
Share of loss after income tax (refer note (iii) below)	**(1,063,302)**	-
	8,145,834	-

(iii) Summary of associate's losses:

	NATURAL FUELS AUSTRALIA LIMITED 2006 $	NATURAL FUELS AUSTRALIA LIMITED 2005 $
Share in associates loss before income tax	**(1,492,709)**	-
Share in income tax benefit	**429,407**	-
Share in associates loss after tax	**(1,063,302)**	-

(iv) Summarised financial information of associate

	ASSETS $	LIABILITIES $	REVENUES $	PROFIT/(LOSS) $
2006				
Natural Fuel Australia Ltd	19,974,098	11,773,576	28,306	(1,063,302)

Investments in associated companies were not equity accounted for the year ended 30 June 2005 as the impact would have been immaterial.

12. INVESTMENT IN ASSOCIATE (CONT'D)

(v) Share of associates expenditure commitment, other than for the supply of inventories

	2006	2005
Operating leases:	$	$
Due within one year	2,728,002	-
After one year but not more than five years	14,386,008	-
After five years	53,947,530	-
	71,061,540	-
Capital expenditure commitments:		
Due within one year	8,000,000	-
After one year but not more than five years	-	-
After five years	-	-
	8,000,000	-

(vi) Share of associates contingent liabilities:

Guarantees to contactors	2,300,000	-

13. DEVELOPMENT COSTS

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Development costs - Biodiesel plant (i)	-	1,812,499	-	-
Works in progress (ii)	557,393	-	-	-
Project development costs (iii)	1,514,191	-	-	-
	2,071,584	1,812,499	-	-

(i) Relates to plant development costs incurred by Natural Fuels Australia Limited, now equity accounted as an associate.
(ii) Relates to development costs incurred by Natural Fuel Pte Ltd
(iii) Relates to development costs incurred by Natural Fuel & Energy Inc.

14. INTANGIBLE ASSETS

CONSOLIDATED	GOODWILL	INTELLECTUAL PROPERTY RIGHTS	TOTAL
	$	$	$
Year ended 30 June 2005			
Cost and net book amount at 1 July 2004	-	-	-
Additions	-	1,080,000	1,080,000
Correction of prior period error*	-	(1,080,000)	(1,080,000)
Closing cost and net book amount	-	-	-
Year ended 30 June 2006			
Cost and net book amount at 1 July 2005	-	-	-
Additions ***	33,259,112		33,259,112
Impairment charge **	(19,252,470)	-	(19,252,470)
Closing net book amount	14,006,642	-	14,006,642

14. INTANGIBLE ASSETS (CONT'D)

* See note 11 for details of correction of treatment of investment costs previously treated as intellectual property rights.

** The carrying amount of the biodiesel operations in the United States segment has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss has been disclosed as impairment of goodwill in the income statement.

*** The gross carrying amount is equal to the value of additions for the year ended 30 June 2006. The gross accumulated amortization and impairment charge is equal to the impairment charge for the year ended 30 June 2006.

Goodwill has been assessed as having an infinite useful life and is subject to a review for impairment annually, and/or where an indicator of impairment arises.

(a) Impairment Test

Goodwill is allocated to the Group's cash generating units (CGU's) identified according to business segment and country of operation. A segment level summary of goodwill allocation is presented below.

2006	AUSTRALIA	SINGAPORE	UNITED STATES OF AMERICA	TOTAL
	$	$	$	$
Bio-diesel development	-	3,082,680	10,923,962	14,006,642

There was no goodwill recognised for the Group at 30 June 2005.

The recoverable amount of CGUs has been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a ten year period. Assumptions for oil prices and feedstock costs have not been adjusted for inflation over the period, while all other costs are extrapolated using the estimated growth rates stated below. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGU operates.

(b) Key assumptions used for value-in-use calculations

CGU	DISCOUNT RATE (PRE TAX EQUIVALENT)*	GROWTH RATE	LONG-TERM OIL PRICE**	LONG-TERM FEEDSTOCK PRICE**
Singapore	25%	2.50%	US$55	US$483/metric tonne
United States of America	25%	2.50%	US$55	US$550/metric tonne

* The operations in Singapore have tax -free status for the first 10- years after commencement of production of biodiesel

* These prices have not been adjusted for inflation for the value in use calculations.

14. INTANGIBLE ASSETS (CONT'D)

(c) Impact of possible changes in key assumptions

The recoverable amount of the goodwill of the Singapore CGU has been determined to be significantly in excess of the carrying amount. Management does not consider a reasonably possible change in any of the key assumptions to result in a recoverable amount exceeding the carrying amount

(d) Impairment charge

Events occurring between acquisition and balance date have resulted in an impairment to the fair value of the goodwill for the United States of America CGU being recognised in the income statement of the consolidated entity for the year of $19,252,470 (this has resulted also in an impairment held by the parent entity in this CGU recognised in the income statement as an impairment to investments). The events and circumstances leading to the impairment loss were a significant increase in the contract price for the project capital construction cost together with an uptrend in the cost of feedstocks.

15. DEFERRED FINANCE COSTS

	CONSOLIDATED		COMPANY	
	2006	2005	**2006**	2005
	$	$	**$**	$
Finance facility costs incurred by Natural Fuel & Energy Inc.	**867,752**	-	**-**	-

The asset arises on recognition of a liability incurred during the year as part of a finance facility secured by the subsidiary to fund the development of its plant development in the United States.

The consolidated entity had finance facilities of $52.5 million (2005:nil) as at 30 June 2006 of which $nil (2005: nil) has been drawn at that date.

The company had no finance facilities as at 30 June 2006 or 30 June 2005.

16. TRADE AND OTHER PAYABLES

CURRENT				
Trade creditors	**1,280,724**	528,909	**47,208**	41,840
Investment acquisition costs payable	**2,420,288**	-	**2,420,288**	-
Sundry creditors	**199,730**	7,359	**40,119**	-
	3,900,742	536,268	**2,507,615**	41,840

Trade and other payables are non interest bearing and are generally settled on 30 day terms.

17. INTEREST BEARING LIABILITIES

Unsecured loans	211,840	2,030,107	-	-

This loan accrues interest on a daily basis using the average bid rate of the bank bill rate plus a 3% pa margin. No fixed repayments required, but it is required to be paid at the earlier of financial close or the date 12 months after the date of the loan agreement.

18. NON CURRENT LIABILITIES – DEFERRED TAX LIABILITY

The balance comprises temporary differences attributable to:

	CONSOLIDATED		COMPANY	
	2006	2005	**2006**	2005
	$	$	**$**	$
Amounts recognised in profit and loss				
Gain in fair value of investment on loss of control of controlled entity	**2,522,357**	-	-	-
Net deferred tax liabilities	**2,522,357**	-	-	-
Movements:				
Opening balance at 1 July	-	-	-	-
Charged/(credited) to the income statement	**2,522,357**	-	-	-
Charged/(credited) to equity	-	-	-	-
Acquisition of business	-	-	-	-
Closing balance at 30 June	**2,522,357**	-	-	-
Deferred tax liabilities to be settled after more than 12 months	**2,522,357**	-	-	-
Deferred tax liabilities to be settled within 12 months	-	-	-	-
	2,522,357	-	-	-

Upon deconsolidation of the subsidiary, Natural Fuels Australia Limited on 1 July 2005 and its subsequent accounting treatment under the equity method, a fair value adjustment was recognised in the financial statements for the half year ended 31 December 2005. At this time a deferred tax liability was recognised in respect of this effective gain in the underlying investment value.

19. ISSUED CAPITAL

40,983,437 (2005: 23,302,269) fully paid ordinary shares	**38,268,401**	3,692,891	**38,268,401**	3,692,891

(a) Fully Paid Ordinary Shares

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

At 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.

Issued shares have no par value. There is no limit to the authorised share capital of the Company.

19. ISSUED CAPITAL (CONT'D)

(b) Movement in Issued Capital	2006 $	2005 $	2006 No.	2005 No.
Opening balance	3,692,891	897,812	23,302,269	19,171,020
On 21 October 2004, the company issued fully paid ordinary shares at 60 cents each	-	843,254	-	1,405,424
On 21 February 2005, the company issued fully paid ordinary shares at 60 cents each	-	81,000	-	135,000
On 26 May 2005, the company issued fully paid ordinary shares at $1.00 each	-	790,825	-	790,825
On 31 May 2005, the company issued fully paid ordinary shares at 60 cents each	-	1,080,000	-	1,800,000
On 2 July 2005, the company issued fully paid ordinary shares at $1.00 each	25,000	-	25,000	-
On 5 July 2005, the company issued fully paid ordinary shares at $1.00 each	150,000	-	150,000	-
On 28 July 2005, the company issued fully paid ordinary shares at $1.00 each	150,000	-	150,000	-
On 17 August 2005, the company issued fully paid ordinary shares at $1.00 each on acquisition of the remaining 50% of the share capital in Natural Fuel Pte Ltd	2,000,000	-	2,000,000	-
On 16 December 2005, the company issued fully paid ordinary shares at $2.00 each	1,015,000	-	507,500	-
On 7 February 2006 the company issued fully paid ordinary shares at $2.00 each	40,000	-	20,000	-
On 21 April 2006 the company issued fully paid ordinary shares at $2.10 each	1,298,850	-	618,500	-
On 1 May 2006 the company issued fully paid ordinary shares at $2.10 each	2,446,500	-	1,165,000	-
On 5 May 2006 the company issued fully paid ordinary shares at $2.10 each on acquisition of a further 66% of the share capital of Natural Fuel & Energy Inc	27,114,160	-	12,925,168	-
On 30 June 2006 the company issued fully paid ordinary shares at $2.80 each	336,000	-	120,000	-
	38,268,401	3,692,891	40,983,437	23,302,269

20. OPTIONS

Details of options over unissued shares granted as at 30 June 2006:

GRANT DATE	NUMBER OF OPTIONS	EXERCISE PRICE ($)	EXPIRY DATE	VALUE PER OPTION ($)
29 June 2004	8,000,000	2.00	30 June 2008	(i) 0.047
7 September 2004	400,000	2.00	30 June 2008	(i) 0.047
31 December 2005	400,000	2.00	30 June 2008	(ii) 1.006
9 June 2006	250,000	3.00	30 June 2008	(iii) 1.253
	9,050,000			

The weighted average contractual life of options on issue at 30 June 2006 is 2 years.

All options vest upon grant and are exercisable as at 30 June 2006.

Details of valuations of options on issue as at 30 June 2006:

Options were valued using the Binomial Option Valuation Methodology, using the following assumptions:

	(i)	(ii)	(iii)
Exercise price	$2.00	$2.00	$3.00
Expiry date	30.6.08	30.6.08	30.6.08
Issue date	29.6.04	31.12.05	9.6.06
Volatility	70%	80%	80%
Risk free interest rate	5.67%	5.19%	5.70%

Reconciliation of options outstanding at the end of the financial year including weighted average exercise price:

	2006		2005	
	NUMBER OF OPTIONS	**WEIGHTED AVERAGE EXERCISE PRICE ($)**	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE ($)
Options on issue at the start of the financial year	**8,000,000**	**2.00**	6,000,000	2.00
Options granted during the financial year	**1,050,000**	**2.24**	2,000,000	2.00
Options on issue at the end of the financial year	**9,050,000**	**2.03**	8,000,000	2.00

21. ACCUMULATED LOSSES AND OTHER RESERVES

	CONSOLIDATED		COMPANY	
	2006	2005	**2006**	2005
ACCUMULATED LOSSES	**$**	$	**$**	$
Accumulated losses at the beginning of the financial year	**(1,805,601)**	(889,485)	**(907,892)**	(889,485)
Net loss attributable to members of the company	**(15,407,225)**	(916,116)	**(20,634,396)**	(18,407)
Accumulated losses at the end of the financial year	**(17,212,826)**	(1,805,601)	**(21,542,288)**	(907,892)
MINORITY INTERESTS				
Minority interests at the beginning of the financial year	**-**	-	**-**	-
Allocation to minority interests upon acquisition	**250,267**	-	**-**	-
Net loss attributable to minority interests	**7,950**	-	**-**	-
Foreign exchange differences attributable to minority interests	**(40,217)**			
Minority interests at the end of the financial year	**218,000**	-	**-**	-
Total other reserves:				
OPTION RESERVE				
Balance at the beginning of the financial year	**376,000**	282,000	**376,000**	282,000
Fair value recognised of options granted as compensation	**734,450**	94,000	**734,450**	94,000
Balance at the end of the financial year	**1,110,450**	376,000	**1,110,450**	376,000
FOREIGN EXCHANGE RESERVE				
Balance at the beginning of the financial year	**-**	-	**-**	-
Foreign exchange differences arising on consolidation	**26,637**	-	**-**	-
Balance at the end of the financial year	**26,637**	-	**-**	-
TOTAL OTHER RESERVES				
Balance at the beginning of the financial year	**376,000**	**282,000**	**376,000**	**282,000**
Movements in reserves during the year	**761,087**	**94,000**	**734,450**	**94,000**
BALANCE AT THE END OF THE FINANCIAL YEAR	**1,137,087**	**376,000**	**1,110,450**	**376,000**

21. ACCUMULATED LOSSES AND OTHER RESERVES (CONT'D)

NATURE AND PURPOSE OF OTHER RESERVES

Option reserve

The reserve is used to reflect the fair value of options over unissued shares issued to employees, consultants and in respect of other forms of compensation. The amounts credited to the reserve are transferred to issued capital upon subsequent exercise of the options. Amounts credited to the reserve in respect of options subsequently lapsing unexercised are transferred to accumulated losses.

Foreign exchange reserve

The reserve is used to recognise differences arising as a result of foreign exchange transactions and foreign exchange translations on consolidation.

22. KEY MANAGEMENT PERSONNEL DISCLOSURES

The Key Management Personnel of the Consolidated Entity for the year ended 30 June 2006 were as follows:

Directors of the parent entity
R Selwood
R Stroud
T McGellin
M Pixley
B Eu

Other key management personnel
M Allenby
E McConchie

Details of remuneration paid to Key Management personnel by the Consolidated entity during the financial year:

2006	SHORT TERM	POST EMPLOYMENT	SHARE BASED PAYMENTS	
	SALARY, FEES AND CONSULTANCY	SUPERANNUATION	OPTIONS	TOTAL REMUNERATION
	$	$	$	$
Directors				
R Selwood	36,000	-	-	36,000
R Stroud	120,000	-	-	120,000
T McGellin	40,000	-	-	40,000
M Pixley	33,334	20,000	-	53,334
B Eu	48,750	-	-	48,750
Executives				
M Allenby	109,484	11,561	11,750	132,795
E McConchie	195,000	-	402,400	597,400
	582,568	31,561	414,150	1,028,279

22. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT'D)

2005	SHORT TERM	POST EMPLOYMENT	SHARE BASED PAYMENTS	
	SALARY, FEES AND CONSULTANCY	SUPERANNUATION	OPTIONS	TOTAL REMUNERATION
	$	$	$	$
Directors				
R Selwood	136,808	6,192	-	143,000
R Stroud	120,000	-	-	120,000
T McGellin	52,000	-	-	52,000
M Pixley	-	-	94,000	94,000
B Eu	-	-	-	-
Executives				
M Allenby	-	-	-	-
E McConchie	150,000			150,000
	458,808	6,192	94,000	559,000

Other transactions with Key Management Personnel

On 31 May 2005, Natural Fuel Limited acquired all the intellectual property rights from IRSS Nominees (21) Limited, an entity associated with M Pixley, in the joint venture with All Tech Ltd in consideration for 1,800,000 fully paid ordinary shares in Natural Fuel Limited at 60 cents each. Total consideration of the transaction was $1,080,000.

During the financial year, key management personnel received remuneration from Natural Fuels Australia Limited, an equity accounted associate of Natural Fuel Limited (consolidated for the year ended 30 June 2005) as follows:

	2006	
	SALARY, FEES AND CONSULTANCY	SUPERANNUATION
	$	$
Directors		
R Selwood	216,437	25,050
R Stroud	36,000	-
M Pixley	27,000	9,000
Executives		
M Allenby	54,645	-
	334,082	34,050

23. OTHER RELATED PARTY TRANSACTIONS

Other than the transactions with Key Management Personnel disclosed at Note 22, the related party transactions occurring during the year are as follows:

Entities related to Natural Fuel Limited during the financial year are as follows:

Natural Fuel Pte Ltd
Natural Fuel & Energy Inc.
Natural Fuel Asia Ltd
Natural Fuel Australia Ltd
Natural Fuel Darwin Pty Ltd

23. OTHER RELATED PARTY TRANSACTIONS (CONT'D)

The following loan balances were repayable to Natural Fuel Limited as at the end of the financial year:

	2006 $	2005 $
Natural Fuel Pte Ltd	**645,080**	383,568
Natural Fuel & Energy Inc.	**97,475**	-

During the year the consolidated entity provided consultancy services to Natural Fuels Australia Limited, an associate company of Natural Fuel Limited amounting to $140,000 (2005:Nil).

24. CAPITAL AND LEASING COMMITMENTS

	CONSOLIDATED		COMPANY	
	2006 $	2005 $	**2006 $**	2005 $
(a) Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial statements:				
Payable				
- not longer than 1 year	**306,906**	53,900	**105,776**	53,900
- longer than 1 year but not longer than 5 years	**959,852**	-	**273,255**	-
- longer than 5 years	**3,856,774**	-	-	-
	5,123,532	53,900	**379,031**	53,900

The Natural Fuel Limited property lease is a non-cancellable lease with a 4-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement, require that the minimum lease payments shall be increased by the lower of CPI or 4.5% per annum. An option exists to renew the lease at the end of the 4-year term for an additional 2 terms of 3 years.

The Natural Fuel Pte Ltd office lease has a 3 year term. Natural Fuel Pte Ltd has entered into a 29 year land lease at $13,391 per month, in respect of land required for operations.

(b) Capital Expenditure Commitments Contracted For

- capital expenditure projects	-	34,220,954	-	-
Payable				
- not longer than 1 year	-	30,798,859	-	-
- longer than 1 year but not longer than 5 years	-	3,422,095	-	-
- longer than 5 years	-	-	-	-
	-	34,220,954	-	-

25. CONTINGENCIES

Contingent Liabilities

The consolidated entity has entered into a guarantee in respect of the lease on its Perth office supported by a term deposit of $50,000 (2005: Nil).

The consolidated entity has entered into a guarantee with a contractor of nil (2005: $3,850,000) supported by bank deposits.

In respect to debt funding agreements between Natural Fuels Australia Limited and Natural Fuel Darwin Pty Ltd, being associated companies of Natural Fuel Limited, and Commonwealth Bank of Australia, Natural Fuel Limited has indemnified Babcock Environmental Investments Limited in respect of one half of its liabilities payable pursuant to the debt funding facilities. In addition and in relation to the debt funding agreements, there is a deed of share charge creating an equitable mortgage over the shares held by the consolidated entity in Natural Fuels Australia Limited, and a deed of specific floating charge between Natural Fuel limited and Babcock Environmental Investments Limited creating an equitable mortgage over the Featherweight Charged Property of Natural Fuel Limited granted to Babcock Environmental Investments Limited.

Contingent Assets
There were no material contingent assets as at 30 June 2006.

26. EVENTS SUBSEQUENT TO REPORTING DATE

On 3 August 2006, Natural Fuel Limited raised $30 million (before cost of issue) from the issue of 300,000 unsecured converting notes at a face value of $100. The converting notes have the following key terms: 1) Covert to ordinary shares upon the successful IPO based on a conversion value of (face value)/(60% of the IPO price). 2) the converting notes have a mandatory conversion to ordinary shares on the IPO, and are not otherwise redeemable, except on a winding up. As a condition of the converting note the note holders must also subscribe for, or procure subscription for an equivalent value of shares as the face value of their subscription at the full value of the IPO price. As the conversion ratio to ordinary shares specifically calculates a varying number of shares based on the IPO price, under AASB 132b(1) the converting note must be recognised as a financial liability and the $20 million net difference between the settlement value ($50 million) and face value ($30 million) will be included as a finance charge in the income statement for financial year ended 30 June 2007.

On 7 August 2006, Natural Fuel Limited acquired the share capital of the minority interest in Natural Fuel & Energy Inc for cash consideration of $5.075 million, including legal fees. An impairment charge (note 14) based on 100% ownership of the share capital of Natural Fuel & Energy Inc. has been recognised in the financial statements as at 30 June 2006.

On 25 August 2006, Natural Fuel Pte Limited entered into an agreement for a Terminal Services Agreement for a period of 20 years. The estimated cost of the contract to the consolidated entity is $204 million.

On 25 September 2006, Natural Fuel Pte Limited entered into an agreement for the design and construction of a biodiesel plant in Singapore. The estimated cost of the contract is $56 million.

Other than where stated, the financial effect of the above has not been recognised in the financial statements.

Other than the 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 Directors of the company to affect substantially the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

27. CASH FLOW INFORMATION

a) Reconciliation of loss after tax to net cash outflow from operating activities

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
Loss after income tax	**(15,407,225)**	(916,116)	**(20,634,396)**	(18,407)
Non-cash flows in loss				
Profit on disposal of non-current asset	**-**	-	**-**	(515,981)
Gain on deconsolidation of controlled entity	**(897,709)**	-	**-**	-
Gain in fair value of investment on loss of control of controlled entity	**(8,407,857)**	-	**-**	-
Share of net loss of equity accounted associate	**1,063,302**	-	**-**	-
Deferred tax expense	**2,522,357**	-	**-**	-
Impairment	**19,252,470**	-	**19,252,470**	-
Capitalised legal expenses	**-**	(88,519)	**-**	(88,519)
Share based payments	**734,450**	94,000	**734,450**	94,000
Depreciation	**37,197**	3,462	**25,830**	2,654
Changes in assets and liabilities				
(Increase)/decrease in receivables	**16,314**	(72,512)	**(22,297)**	(36,917)
(Increase) in prepayments	**(3,620)**	-	**(1,783)**	-
(Increase) in deferred finance costs	**(33,634)**	-	**-**	-
(Increase)/decrease in other assets	**-**	(12,227)	**-**	3,573
Increase/(decrease) in payables	**360,726**	410,729	**55,498**	(84,989)
Cash flows (used in) operations	**(763,229)**	(581,183)	**(590,239)**	(644,586)

b) Details of non cash transactions

Issue of 2,000,000 shares at $1.00 each as consideration for the acquisition of the remaining 50% of the share capital of the company's subsidiary Natural Fuel Pte Ltd amounting to $2,000,000.

Issue of 12,925,168 shares at $2.10 each as consideration for the acquisition of a further 78% of the share capital of the company's subsidiary Natural Fuel & Energy Inc. amounting to $27,114,160.

There were no other significant non-cash transactions arising during the financial year.

28. DIVIDENDS

No dividends have been paid or proposed during the financial year. The consolidated entity has $nil (2005: $nil) available to it in respect of franking credits.

29. AUDITOR'S REMUNERATION

	CONSOLIDATED		COMPANY	
	2006	2005	**2006**	2005
	$	$	**$**	$
Remuneration paid to auditors in respect of:				
Provision of audit services				
Parent company	**49,070**	10,655	**49,070**	10,655
Subsidiaries	**4,047**	15,000	**-**	-
Provision of non-audit services:				
Parent company	**4,191**	-	**4,191**	-
Subsidiaries	**-**	-	**-**	-
	57,308	25,655	**53,261**	10,655

30. FINANCIAL INSTRUMENTS

The consolidated entity's activities expose it to a variety of financial risks; market risk, credit risk, liquidity risk and cash flow interest risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

(a) Market risk
Currently the consolidated entity is not exposed to any significant market risk.

(b) Credit risk
Currently the consolidated entity has no significant concentrations of credit risk.

(c) Liquidity risk
The consolidated entity monitors its liquidity risk by monitoring its cash reserves and forecast spending. Management is cognisant of the future demands for liquid finance resources to finance current and future operations.

(d) Cash flow and fair value interest risk
The consolidated entity is exposed to changes in market interest rates. Assets are short term interest bearing deposits and no financial instruments have been employed to mitigate risk.

CONSOLIDATED		FINANCIAL ASSETS / (LIABILITIES) AT FIXED INTEREST RATE	FINANCIAL ASSETS / (LIABILITIES) AT FLOATING INTEREST RATE	NON INTEREST BEARING FINANCIAL ASSETS / (LIABILITIES)	TOTAL
2006	%	$	$	$	$
Financial assets					
Cash and cash equivalents	3.7	84,247	1,323,520	-	1,407,767
Trade and other receivables	-	-	-	2,440,625	2,440,625
		84,247	1,323,520	2,440,625	3,848,392
Financial liabilities					
Trade and other payables	-	-	-	(3,900,742)	(3,900,742)
Interest bearing liabilities	-	-	(211,840)	-	(211,840)
		-	(211,840)	(3,900,742)	(4,112,582)
		84,247	1,111,680	(1,460,117)	(264,190)

30. FINANCIAL INSTRUMENTS (CONT'D)

CONSOLIDATED	%	FINANCIAL ASSETS / (LIABILITIES) AT FIXED INTEREST RATE $	FINANCIAL ASSETS / (LIABILITIES) AT FLOATING INTEREST RATE $	NON INTEREST BEARING FINANCIAL ASSETS / (LIABILITIES) $	TOTAL $
2005					
Financial assets					
Cash and cash equivalents	3.6	-	1,069,298	-	1,069,298
Trade and other receivables	5.4	100,000	-	38,110	138,110
Loans to associated companies	-	-	-	383,568	383,568
		100,000	1,069,298	421,678	1,590,976
Financial liabilities					
Trade and other payables	-	-	-	(536,268)	(536,268)
Interest bearing liabilities	8.5	-	(2,030,197)	-	(2,030,197)
		-	(2,030,197)	(536,268)	(2,566,465)
		100,000	(960,899)	(114,590)	(975,489)

COMPANY	%	$	$	$	$
2006					
Financial assets					
Cash and cash equivalents	3.3	50,000	1,207,755	-	1,257,755
Trade and other receivables	-	-	-	2,435,100	2,435,100
Loans to associated companies	-	-	-	742,555	742,555
		50,000	1,207,755	3,177,655	4,435,410
Financial liabilities					
Trade and other payables	-	-	-	(2,507,615)	(2,507,615)
		-	-	(2,507,615)	(2,507,615)
		50,000	1,207,755	670,040	1,927,795
2005					
Financial assets					
Cash and cash equivalents	3.6	-	509,498	-	509,498
Trade and other receivables	5.4	100,000	-	2,515	102,515
Loans to associated companies	-	-	-	383,568	383,568
		100,000	509,498	386,083	995,580
Financial liabilities					
Trade and other payables	-	-	-	(41,840)	(41,840)
Interest bearing liabilities	-	-	-	-	-
		-	-	(41,840)	(41,840)
		100,000	509,498	344,243	953,740

31. COMPANY DETAILS

The parent company, Natural Fuel Limited, is registered and domiciled in Australia.

The registered office of the Company is:
Natural Fuel Limited
No 1 Outridge Crescent
SUBIACO 6008
WESTERN AUSTRALIA

32. SEGMENT INFORMATION

(a) Description of segments

Geographical segments

The consolidated entity is organised and managed on a global basis primarily through three geographical segments. Geographical segments are deemed to be the primary reporting segment.

Australia
The home country of the parent entity and the head office is Australia. The areas of operation in the Australian segment are principally the development of a bio-diesel plant with the view to production in the future.

Singapore
The areas of operation in the Singapore segment are principally the development of a bio-diesel plant with the view to production in the future.

United States of America
The areas of operation in the United States of America segment are principally the development of a bio-diesel plant with the view to production in the future.

Business Segments

The consolidated entity's only business segment is the development of bio-diesel plants with the plan to produce and sell bio-diesel products in the future. As a consequence of having only one determinable business segment no detailed secondary segmental analysis has been included in this note.

(b) Primary reporting format - Geographical Segment

2006	AUSTRALIA	SINGAPORE	UNITED STATES OF AMERICA	INTER – SEGMENT ELIMINATIONS	TOTAL
	$	$	$	$	$
Sales to external customers	-	-	-	-	-
Inter-segment sales	-	-	-	-	-
Total sales revenue	-	-	-	-	-
Share of net loss of associate	(1,063,302)	-	-	-	(1,063,302)
Other revenue/income	9,577,221		-	-	9,577,221
Total segment revenue/income	8,513,919	-	-	-	8,513,919
Segment result	(6,820,121)	331,867	19,413,339	-	12,925,085
Unallocated revenue less unallocated expenses					-
Loss before income tax					12,925,085

32. SEGMENT INFORMATION (CONT'D)

(b) Primary reporting format - Geographical Segment (Cont'd)

2006	AUSTRALIA	SINGAPORE	UNITED STATES OF AMERICA	INTER – SEGMENT ELIMINATIONS	TOTAL
	$	$	$	$	$
Income tax expense for the year	-	-	-	-	(2,522,357)
Loss for the year					15,447,442
Segment assets	4,496,571	3,800,579	13,345,173	(742,555)	20,899,768
Unallocated assets					-
Total assets					20,899,768
Segment liabilities	(5,029,972)	(1,023,871)	(1,331,216)	750,120	(6,634,939)
Unallocated liabilities					-
Total liabilities					(6,634,939)
Investments in associates	8,145,834	-	-	-	8,145,834
Acquisitions of property, plant and equipment, and intangibles and other non-current segment assets	52,041	3,694,383	32,558,373	-	36,304,797
Depreciation and amortisation expense	25,830	11,367	-	-	37,197
Impairment of goodwill	-	-	19,252,470		19,252,470
Other significant non-cash expenses	734,450	-	-	-	734,450

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

All assets, liabilities, income and expenses for the year to 30 June 2005 relate to the Australian segment. Consequently no further disclosure has been made in respect to segmental comparatives.

(c) Notes to and forming part of the segment information

(i) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and accounting standard AASB114 *Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis.

Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, property, plant and equipment, development expenditure and goodwill, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amount of certain assets used jointly by segments, are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors, employee benefits and other borrowings.

(ii) Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arm's-length" basis and are eliminated on consolidation.

(iii) Equity-accounted investments

The group owns 50% of Natural Fuels Australia Limited, a bio-diesel development company located in Australia, which is accounted for using the equity method and is allocated to the Australian segment.

33. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

	CONSOLIDATED			COMPANY		
	PREVIOUSLY REPORTED UNDER AGAAP	EFFECT OF TRANSITION	AIFRS	PREVIOUSLY REPORTED UNDER AGAAP	EFFECT OF TRANSITION	AIFRS
Current Assets	$	$	**$**	$	$	**$**
Cash & cash equivalents	143,153	-	**143,153**	143,153	-	**143,153**
Trade & other receivables	65,598	-	**65,598**	65,598	-	**65,598**
Other	3,573	-	**3,573**	3,573	-	**3,573**
Total Current Assets	212,324	-	**212,324**	212,324	-	**212,324**
Non-current Assets						
Receivables	-	-	**-**	-	-	**-**
Other financial assets	-	-	**-**	-	-	**-**
Investments accounted for using the equity method	-	-	**-**	-	-	**-**
Property, plant and equipment	9,332	-	**9,332**	9,332	-	**9,332**
Development costs	195,500	-	**195,500**	195,500	-	**195,500**
Intangible assets	-	-	**-**	-	-	**-**
Total Non-current Assets	204,832	-	**204,832**	204,832	-	**204,832**
TOTAL ASSETS	417,156	-	**417,156**	417,156	-	**417,156**
LIABILITIES						
Current Liabilities						
Trade & other payables	126,829	-	**126,829**	126,829	-	**126,829**
Interest bearing loans and borrowings	-	-	**-**	-	-	**-**
Total Current Liabilities	126,829	-	**126,829**	126,829	-	**126,829**
TOTAL LIABILITIES	126,829	-	**126,829**	126,829	-	**126,829**
NET ASSETS	290,327	-	**290,327**	290,327	-	**290,327**
EQUITY						
Issued capital	897,812	-	**897,812**	897,812	-	**897,812**
Reserves	-	282,000	**282,000**	-	282,000	**282,000**
Accumulated losses	(607,485)	(282,000)	**(889,485)**	(607,485)	(282,000)	**(889,485)**
Minority equity interests	-	-	**-**	-	-	**-**
TOTAL EQUITY	290,327	-	**290,327**	290,327	-	**290,327**

33. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(b) At the last reporting date under AGAAP: 30 June 2005

	CONSOLIDATED			COMPANY		
	PREVIOUSLY REPORTED UNDER AGAAP	EFFECT OF TRANSITION	AIFRS	PREVIOUSLY REPORTED UNDER AGAAP	EFFECT OF TRANSITION	AIFRS
	$	$	$	$	$	$
ASSETS						
Current Assets						
Cash & cash equivalents	1,069,298	-	**1,069,298**	509,497	-	**509,497**
Trade & other receivables	320,068	-	**320,068**	284,473	-	**284,473**
Other	15,800	-	**15,800**	-	-	**-**
Total Current Assets	1,405,166	-	**1,405,166**	793,970	-	**793,970**
Non-current Assets						
Receivables	201,610	-	**201,610**	201,610	-	**201,610**
Other financial assets	310,714	-	**310,714**	1,112,004	-	**1,112,004**
Invetsments accounted for using the equity method	-	-	**-**		-	**-**
Property, plant and equipment	19,676	-	**19,676**	15,255	-	**15,255**
Development costs	1,812,499	-	**1,812,499**	-	-	**-**
Intangible assets	1,080,000	-	**1,080,000**	1,080,000	-	**1,080,000**
Total Non-current Assets	3,424,499	-	**3,424,499**	2,408,869	-	**2,408,869**
TOTAL ASSETS	4,829,665	-	**4,829,665**	3,202,839	-	**3,202,839**
LIABILITIES						
Current Liabilities						
Trade & other payables	536,268	-	**536,268**	41,840	-	**41,840**
Interest bearing loans and borrowings	2,030,107	-	**2,030,107**	-	-	**-**
Total Current Liabilities	2,566,375	-	**2,566,375**	41,840	-	**41,840**
TOTAL LIABILITIES	2,566,375	-	**2,566,375**	41,840	-	**41,840**
NET ASSETS	2,263,290	-	**2,263,290**	3,160,999	-	**3,160,999**
EQUITY						
Issued capital	3,692,891	-	**3,692,891**	3,692,891	-	**3,692,891**
Reserves	-	376,000	**376,000**	-	376,000	**376,000**
Accumulated losses	(1,429,601)	(376,000)	**(1,805,601)**	(531,892)	(376,000)	**(907,892)**
Minority equity interests	-	-	**-**	-	-	**-**
TOTAL EQUITY	2,263,290	-	**2,263,290**	3,160,999	-	**3,160,999**

33. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

(2) Reconciliation of loss for the year ended 30 June 2005 reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to loss under Australian equivalents to IFRS (AIFRS)

	CONSOLIDATED			COMPANY		
	PREVIOUSLY REPORTED UNDER AGAAP	EFFECT OF TRANSITION	AIFRS	PREVIOUSLY REPORTED UNDER AGAAP	EFFECT OF TRANSITION	AIFRS
	$	$	$	$	$	$
REVENUE	17,289	(17,289)	-	817,289	(817,289)	-
Share of net profits of associates and jointly controlled entities accounted for using the equity method	-	-	-	-	-	-
Depreciation and amortisation expenses	(3,462)		**(3,462)**	(2,654)	-	**(2,654)**
Net Finance costs	(105,107)	17,289	**(87,818)**	-	17,289	**17,289**
Gain on disposal of Intellectual Property and development costs of biodiesel production facility to controlled entity.	-	-	-	(284,019)	800,000	**515,981**
Employee benefits expense	-	-	-	-	-	-
Consulting fee expense	(375,138)	(94,000)	**(469,138)**	(273,030)	(94,000)	**(367,030)**
Other expenses from ordinary activities	(355,698)	-	**(355,698)**	(181,993)	-	**(181,993)**
Profit/(Loss) before tax	(822,116)	(94,000)	**(916,116)**	75,593	(94,000)	**(18,407)**
Tax expense	-	-	-	-	-	-
Net Profit/(Loss)	(822,116)	(94,000)	**(916,116)**	75,593	(94,000)	**(18,407)**
Profit/(Loss) attributable to minority interests	-	-	-	-	-	-
Profit/(Loss) attributable to equity holders of the parent company	(822,116)	(94,000)	**(916,116)**	75,593	(94,000)	**(18,407)**

(3) Reconciliation of cash flow statement for the year ended 30 June 2005 reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to cash flow statement under Australian equivalents to IFRS (AIFRS)

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the AGAAP to AIFRS reconciliations

Under AIFRS, options that are granted after 7 November 2002 and/or vested after 1 January 2005 and issued as remuneration to consultants, is recognised as an expense with a corresponding increase in equity.

An adjustment of $282,000 has been made to accumulated losses and the option reserve as at 1 July 2004 in respect of fair value of options issued as remuneration prior to the date of transition. An adjustment has been made to the 2005 comparatives to recognise the fair value of options issued as remuneration during the year amounting to $94,000.

The directors of the company declare that:

(a) The financial statements and notes of the company and of the consolidated entity, as set out on pages 10 to 55 are in accordance with the Corporations Act 2001:

(i) comply with Accounting Standards and the Corporations Regulations 2001; and

ii) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the company and consolidated entity.

(b) In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

ROGER SYDNEY STROUD
DIRECTOR

Dated this the 1st day of November, 2006

CHARTERED
ACCOUNTANTS
& BUSINESS
ADVISORS

A MEMBER OF
MOORES ROWLAND
INTERNATIONAL

Bentleys mri
Thinking ahead

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NATURAL FUEL LTD ABN 52 106 760 418
AND CONTROLLED ENTITIES

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF NATURAL FUEL LIMITED

Scope

The financial report and directors' responsibility
The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Natural Fuel Ltd (the company) and Natural Fuel Ltd (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach
We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 9 of the financial report has not changed as at the date of providing our audit opinion.

Audit Opinion
In our opinion, the financial report of Natural Fuel Ltd is in accordance with:

a. the Corporations Act 2001, including:

   i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b. other mandatory professional reporting requirements in Australia.

BENTLEYS MRI PERTH PARTNERSHIP

J W VIBERT
Partner

Dated 1st day of November 2006