NATURAL FUEL

PRINCIPAL OFFICE
Level 1, 1 Outridge Crescent
Subiaco, WA 6008
Australia

POSTAL ADDRESS:
PO Box 1700
Subiaco WA 6904
Australia

TELEPHONE:
+61 8 9286 6788

FASCIMILE:
+61 8 9286 6787

EMAIL:
admin@naturalfuel.com

WEB:
www.naturalfuel.com

26 March 2007

The Company Announcements Officer
Australian Stock Exchange Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Natural Fuel Limited Convertible Bond Issue

Natural Fuel is pleased to announce the proposed issue of up to US$100 million unconditional, unsecured and unsubordinated convertible bonds due 2012. The Company has entered into a subscription agreement with the manager of the offer, Jefferies International Limited, to underwrite the issue of US$80 million bonds, with additional oversubscriptions of up to US$20 million at the manager's option.

The issue of US$50 million of the bonds will be unconditional, with the further issue of up to US$50 million of the bonds being conditional on the approval of Natural Fuel shareholders.

Proceeds from the offering will primarily be used to fund the recently commenced construction of three new plants for the production of biodiesel in Singapore. The plants will be capable of producing 680 million litres of biodiesel per annum by the end of calendar year 2007. Biodiesel produced by the plants will be used by Natural Fuel to supply to the growing Australian, United States and Japanese markets. The funds will also be used for general corporate purposes and will effectively replace the US$95 million project debt facility for which Commonwealth Bank of Australia was previously appointed the lead arranger.

An Extraordinary General Meeting (EGM) of Natural Fuel's shareholders is to be held on 26 April 2007 to consider resolutions to approve the issue of bonds under the conditional part of the offer and the ratification of the issue of bonds under the unconditional part of the offer. Shareholders are also being asked to consider resolutions to approve an employee share option plan and an employee share acquisition plan. A Notice of Meeting for this EGM will be dispatched to shareholders today.

Natural Fuel has made an application for the bonds to be listed on the official list of Singapore Exchange Securities Trading Limited and will today lodge two prospectuses with ASIC for the offer. While the bonds are being offered primarily to institutional investors offshore and in Australia, the prospectuses will be lodged to ensure Australian resale restrictions do not apply to any shares later issued on conversion of the bonds.

The bonds carry a coupon of 6.75% per annum payable semi-annually in arrear. They are convertible into Natural Fuel shares at A$1.32 per share, representing a conversion premium of approximately 28% above the price of Natural Fuel shares at the time of pricing (A$1.03 on 23 March 2007).

Natural Fuel has the right to redeem all outstanding bonds at their par value together with all accrued but unpaid and future interest on or after 11 April 2010 if the Natural Fuel share price exceeds 150% of the conversion price for a specified period of time. Unless previously redeemed, converted or cancelled, the bonds will be redeemed at par on 10 April 2012. Further details on the terms of the Convertible Bonds are contained in the Notice of Meeting for the EGM.

NATURAL FUEL

Natural Fuel believes the bond offer represents an important step forward in progressing the construction of its Singapore biodiesel production plants and realising the company's ambition to become a global leader in the biodiesel industry.

Yours faithfully

Richard Selwood
Managing Director
Natural Fuel Limited

NOTHING IN THIS DOCUMENT CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE CONVERTIBLE BONDS OF NATURAL FUEL LIMITED HAVE NOT BEEN, AND WILL NOT, BE REGISTERED UNDER THE US SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE CONVERTIBLE BONDS MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY OTHER APPLICABLE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY OTHER APPLICABLE SECURITIES LAWS.