
Deed Administrators' Report

Pursuant to Section 445F of the Corporations Act 2001



**Natural Fuel Limited
(Subject to Deed of Company Arrangement)
ACN 106 760 418**

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GLOSSARY OF TERMS

Abbreviation	Description
ABN	Australian Business Number
ACN	Australian Company Number
Act	The Corporations Act 2001
AIM	London Stock Exchange – Alternative Investment Market
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
DOCA	Deed of Company Arrangement
ERV	Estimated Realisable Value
GEERS	General Employee Entitlements Redundancy Scheme
NFPL	Natural Fuel Pte Limited
NFAL	Natural Fuels Australia Limited
NFD	Natural Fuels Darwin Pty Ltd
NPE	Natural Fuel and Energy Inc
Statement	Directors' Statement about the Company's Business, Property, Affairs and Financial Circumstances
Trustee	The trustee of the creditors trust to be created under the varied DOCA

LISTING OF ANNEXURES

Annexure 1 Summary of Receipts and Payments

1. EXECUTIVE SUMMARY

This report should be read in conjunction with the Deed Administrators' previous report to creditors dated 17 June 2010.

At a meeting of creditors held on 29 June 2010, creditors resolved to vary the terms of the Deed of Company Arrangement (DOCA) as set out in my previous report to creditors dated 17 June 2010. The major terms of the varied DOCA included:

1. Cash consideration of \$150,000 in full and final satisfaction of priority creditor claims.
2. Seeking and obtaining shareholder approval within two months from the date that DOCA is executed for capital raisings and the appointment of directors as nominated by NRG.
3. 400,000 shares will be distributed to admitted unsecured creditors on a pari passu basis, in proportion to the amount of debt that unsecured creditors are admitted for in the creditors trust.
4. A maximum amount of \$51,411 being made available (in addition to the \$150,000) to ensure all employee entitlements are paid in an amount at least equivalent to the amount employees would expect to receive under GEERS.
5. A variation to the capital raisings/post reconstruction share structure.

Subsequent to receiving creditors approval, NRG has convened a meeting of shareholders on 16 August 2010 to approve a number of resolutions and effectuate the terms of the DOCA. A copy of the shareholders notice of meeting and explanatory memorandum is available at www.asx.com.au.

Discussions with NRG following the issue of the shareholders notice of meeting have identified two modifications that improve the efficiency of NRG's proposal. These improvements require two further variations to the DOCA. One resolution requires approval by creditors to better reflect the resolutions that are to be approved by shareholders. The second resolution provides the Trustee with the ability to either distribute after 12 months or sell the 400,000 shares that were previously required to be distributed to admitted unsecured creditors.

The proposed variations are as follows:

1. Remove the capital raising resolution:
"Issue of five million shares at \$0.10 per share to NRG to raise \$500,000 following shareholder approval";
Include the capital raising resolutions:
"Issue Convertible Notes at an issue price of \$5,000 each raising up to a total of \$250,000
Issue 2.5 million shares at \$0.10 per share to raise \$250,000 "

2. Providing the Trustee with the ability to:
 - a. Distribute the shares that are to be set aside for admitted creditors after 12 months after the shares are issued; or
 - b. Sell the shares that are to be set aside for admitted creditors and distribute the proceeds from this share sale,

in either case on a pari passu basis, in proportion to the amount of debt that unsecured creditors are admitted for in the creditors trust.

The Deed Administrators recommend that creditors accept the variations to the DOCA for the following key reasons:

1. It allows the DOCA to be effectuated shortly following the shareholders meeting on 16 August 2010, therefore allowing the Deed Administrators to declare a dividend for employees as soon as possible.
2. It removes the requirement for the Deed Administrators to incur significant time and costs in preparing a prospectus for issuing shares to admitted unsecured creditors, which would otherwise be a requirement under Chapter 6D of the Act.
3. The variations do not affect the return to priority creditors and still provide these creditors with an equal or greater return than they would receive if NFL was placed into liquidation.

A meeting of creditors of NFL has been convened for Tuesday, 17 August 2010 at 10.30 am WST at the offices of Ferrier Hodgson, Level 26, BankWest Tower, 108 St George's Terrace, Perth, Western Australia. At this meeting, the following option is available to creditors regarding NFL's future:

- That the company vary the existing DOCA in terms materially consistent with varied DOCA proposal set out in this report.

2. INTRODUCTION

2.1 Purpose of Report

It is proposed that NFL varies its existing DOCA which will ultimately allow for the potential future recapitalisation of NFL and relisting on the ASX. In this regard a variation to the DOCA has been put forward.

Section 445A of the Act provides that a DOCA may be varied or terminated by a resolution passed at a meeting of the company's creditors convened under section 445F of the Act. This report sets out the Deed Administrators' opinion about the following matter:

- *Whether it would be in the creditors' interests for the company to accept NRG's variation to NFL's existing DOCA.*
- *The Deed Administrators' reasons for those opinions.*

2.2 Statement of Independence

We, Martin Jones, Andrew Saker and Darren Weaver of Ferrier Hodgson have undertaken a proper assessment of the risks to our independence prior to accepting our appointments as Joint and Several Administrators of NFL. This assessment identified no real or potential risks to our independence. We were not aware of any reasons that would prevent us from accepting this appointment. This position has not changed since our last report to creditors.

3. STATEMENT OF POSITION

3.1 Current Dividend Estimate

Please refer to the Deed Administrators' Report to Creditors dated 17 June 2010 for our detailed discussion with respect to the estimated realisable value of NFL's assets and liabilities.

We table below our updated Statement of Position as at 31 July 2010 for your information:

	DOCA Scenario (\$)	Liquidation Scenario (\$)
Floating Charge Assets		
DOCA Proposal - Sale of Corporate Shell	150,000	nil
Cash at Bank	114,000	114,000
GST Receivable	8,840	8,840
Loans Receivable (related)	nil	nil
Total Floating Charge Assets	272,840	122,840
Fixed Charge Assets		
Investments in Subsidiaries	8,000	8,000
Investments in Listed Entities	74,788	74,788
Total Fixed Charged Assets	82,788	82,788
Less: Deed Administrators Fees and Costs		
Legal costs	(15,500)	(22,000)
Future Prospective Remuneration	(30,000)	(40,000)
Total Costs and Remuneration	(45,500)	(55,500)
Total Assets Available to Priority Creditors	310,128	150,128
Employee Entitlements	(667,755)	(667,755)
Total Assets Available to Unsecured Creditors	(357,627)	(517,627)
Unsecured Creditors		
Trade Payables & Accruals	(165,835)	(165,835)
Statutory Liabilities	(39,354)	(39,354)
Convertible Bonds	(119,127,571)	(119,127,571)
Loan-Delma Commodities Pte Ltd	nil	nil
Loan - Ganesha Nominees Pty Ltd	(4,500,000)	(4,500,000)
Loan from Power Knight	nil	nil
Directors Entitlements	(250,523)	(250,523)
Total Unsecured Creditors	(124,083,283)	(124,083,283)
Estimated Surplus / (Deficiency)	(124,440,910)	(124,600,910)
Estimated Return to Unsecured Creditors (Cents in Dollar)	Nil	Nil

Please note that the Statement of Position excludes the amount of money that NRG may be required to provide to “top up” the employee entitlements to a maximum of \$51,411.62. It also excludes the number and value of the shares that will be distributed to admitted unsecured creditors.

3.2 Causes of Failure

Please refer to the Administrators’ Report to Creditors dated 7 August 2009 for details regarding the Company’s causes of failure identified by the directors and also the Administrators.

3.3 Summary of Receipts and Payments

The receipts and payments of NFL for the period 3 October 2009 to 31 July 2010 are attached as **Annexure 1**.

4. STATUTORY INVESTIGATIONS

Please refer to the Administrators’ Report to Creditors dated 7 August 2009 for details regarding the Administrators’ statutory investigations into the Company.

5. VARIATION TO DEED OF COMPANY ARRANGEMENT

5.1 Statement of Proposed DOCA

As discussed previously, at the meeting of creditors of NFL held on 29 June 2010, creditors resolved that the Company vary the DOCA pursuant to Part 5.3A of the Corporations Act 2001 on the terms proposed by NRG as detailed in the Third Report to Creditors dated 17 June 2010.

As set out in the Third Administrators’ Reports to Creditors dated 17 June 2010, the estimated dividend to employees of NFL under the NRG proposal, and subject to realisation of NFL’s other assets, is equal to or greater than if NFL is placed into liquidation. The admitted unsecured creditors will also be issued with shares under the DOCA.

Two further variations are now proposed, which will improve the efficiency of NRG’s proposal for the following reasons:

1. the resolutions approved by creditors will better reflect the resolutions to be approved by shareholders.
2. To provide the Trustee with the ability to either distribute after 12 months or sell the 400,000 shares that were previously required to be distributed to admitted unsecured creditors. Without this ability a prospectus would be required, meaning the Deed Administrator would incur significant legal and administrative costs.

The proposed variations are as follows:

1. Remove the capital raising resolution:

“Issue of five million shares at \$0.10 per share to NRG to raise \$500,000 following shareholder approval”;

2. Include the capital raising resolution:

“Issue Convertible Notes at an issue price of \$5,000 each raising up to a total of \$250,000

Issue 2.5 million shares at \$0.10 per share to raise \$250,000 ”

3. Providing the Trustee with the ability to:

- a. Distribute the shares that are to be set aside for admitted creditors after 12 months after the shares are issued; or
- b. Sell the shares that are to be set aside for admitted creditors and distribute the proceeds from this share sale

in either case on a pari passu basis, in proportion to the amount of debt that unsecured creditors are admitted for in the creditors trust.

The effect of the above resolutions is that the DOCA and creditors trust must be varied as set out below in red.

The references to employee entitlements have been amended to clarify the payment of entitlements to employees. That is, under the DOCA:

- a. All employees will be paid at least the amount they would expect to receive under GEERS.
- b. However, there are insufficient funds for the employees to recover 100 cents in the dollar in respect of their entitlements.

Key Elements	Proposed Variations to DOCA
Proponent	NRG Capital and its nominees (Syndicate)
Cash Consideration	<p>\$150,000:</p> <ul style="list-style-type: none"> 1. \$25,000 deposit paid within seven days of the DOCA being approved by creditors and executed. 2. Balance of \$125,000 paid within seven days of receiving shareholder approval. <p>The deposit is fully refundable if the transaction does not proceed.</p> <p>In full and final satisfaction of creditor claims</p>

Key Elements	Proposed Variations to DOCA
Structure	<p>Variation to the DOCA dated 10 November 2009, with funds paid into creditor's trust where all liabilities are transferred to on execution of the DOCA.</p> <p>All assets, including the GEM shares, but subject to the conditions relating to the GEM shares set out below, other than the retained assets mentioned below will also be transferred to the creditors trust.</p>
Timing	See terms of cash consideration
Assets Purchased	In effect, the NFL shell through the capital raising described below.
Retained assets	<ol style="list-style-type: none"> 1. The shareholding in NFAL (and their assets) 2. The shareholding in NFE (and their assets)
Costs	<ul style="list-style-type: none"> ■ The reasonable legal costs of the deed administrators for the variation of the DOCA to a maximum of \$6,500 will be paid by the Syndicate within seven days of receiving shareholder approval. ■ The Syndicate will co-ordinate and pay the reasonable costs of the capital raisings, shareholder meeting notices, prospectus and preparation of accounts. ■ These funds will be reimbursed to the Syndicate out of the capital raisings.
Conditions Precedent	<ul style="list-style-type: none"> ■ Seeking and obtaining shareholder approval within two months from the date that the DOCA is executed for: <ul style="list-style-type: none"> □ The capital raisings mentioned below (to the extent required by the ASX) □ Appointment of directors as nominated by the Syndicate to NFL
Capital Raisings / Post Recon Share Structure	<ol style="list-style-type: none"> 1. One for 700 consolidation of existing shares from 506,611,538 to 723,731. 2. Issue of 400,000 new shares to the creditors trust in satisfaction of all admitted unsecured creditor claims. 3. Issue Convertible Notes at an issue price of \$5,000 each raising up to a total of \$250,000. 4. Issue 2.5 million shares at \$0.10 per share to raise \$250,000.
Convertible Bondholder Rights	<ol style="list-style-type: none"> 1. The conversion rights on the convertible bonds will be cancelled and the debt transferred to the creditors trust.

Key Elements	Proposed Variations to DOCA
GEM Shares	<p>The GEM shares held by NFL will be transferred to the creditors trust. The proceeds of sale of the GEM shares will be used to pay employee entitlements as described below. In the event that:</p> <ul style="list-style-type: none"> ■ The GEM shares are sold for 8.5p, NRG must pay an additional sum (ie in addition to the cash consideration of \$150,000) of \$12,288.16). ■ The GEM shares are sold for between 4p and 8.5p, NRG will pay an amount sufficient so that when combined with the proceeds, a sum to a maximum of \$51,411.62 is available to pay employee entitlements such that all employees will be paid at least the amount they would expect to receive under GEERS. ■ The Deed Administrators are unable to sell the GEM shares within 60 days of execution of the varied DOCA at a price at or above 4p per share, then the shares will be transferred by the creditors trust to the Syndicate and NFL will pay the maximum amount of \$51,411.62 to pay employee entitlements as described above. ■ Subject to point 3 above, if the GEM shares are sold for more than \$51,411.62, the creditors trust retains any excess over that amount and NRG must still pay the cash consideration of \$150,000.
Employee Entitlements	<p>The amount of \$51,411.62 will be made available to meet any shortfall in employee entitlements.</p> <p>In the circumstances described above, the Syndicate will meet any employee entitlements under the DOCA to a maximum of \$51,411.62 to ensure that all employees are paid at least the amount they would expect to receive under GEERS.</p>
Unsecured Creditor Claims	<p>400,000 shares will be issued to the creditors trust.</p> <p>The Trustee will have the ability to either:</p> <ol style="list-style-type: none"> a. Distribute the shares that are to be set aside for admitted creditors after 12 months after the shares are issued; or b. Sell the shares that are to be set aside for admitted creditors and distribute the proceeds from this share sale. <p>in either case on a pari passu basis, in proportion to the amount of debt that unsecured creditors are admitted for in the creditors trust.</p>
Other Terms and Conditions	<p>All other terms and conditions (other than those detailed above) are consistent with those set out in the DOCA executed on 10 November 2009.</p>

6. CREDITORS' OPTIONS, DIVIDEND ESTIMATES AND COST ESTIMATES

We herewith set-out our opinion on whether it is in creditors best interests that:

- The company vary the existing DOCA in terms materially consistent with NRG's variation.

In forming our opinion, it is necessary to consider an estimate of the dividend creditors might expect, and the likely costs, under each option.

6.1 Proposed Variation to the DOCA

As discussed above in section 5 of this report, the Deed Administrators have conducted an assessment of the variations put forward and recommend that creditors accept the varied DOCA proposal put forward by NRG for the following key reasons:

1. It allows the DOCA to be effectuated shortly following the shareholders meeting on 16 August 2010, therefore allowing the Deed Administrators to declare a dividend for employees in an expedient manner.
2. It removes the requirement for the Deed Administrators to incur significant time and costs in preparing a prospectus for issuing shares to admitted unsecured creditors, which would otherwise be a requirement under Chapter 6D of the Act.
3. The variations do not affect the return to priority creditors and still provides these creditors with an equal or greater return than they would receive if NFL was placed into liquidation.
4. Admitted unsecured creditors will either receive shares under the DOCA proposal or receive funds from the sale of the shares. If the DOCA proposal is not accepted by creditors and NFL is placed into liquidation, unsecured creditors will receive no return.
5. Based upon our preliminary investigations there do not appear to be any recoveries of substance available to the company which may be pursued by a liquidator.

The estimated costs for administering NFL's DOCA and creditors' trust are estimated at \$30,000.00 exclusive of GST.

Accordingly, the Deed Administrators recommend creditors resolve to accept the variations put forward by NRG.

7. DEED ADMINISTRATORS' OPINION

The only option available to creditors is to vary the current DOCA.

From our calculations in sections 3 of this report, we estimate that the return to employees and unsecured creditors of NFL under NRG's varied DOCA proposal is greater than what they would receive in a liquidation scenario. Accordingly, it is our opinion that creditors resolve to accept the variation to the DOCA proposal put forward by NRG.

In forming our recommendation to creditors as discussed in sections 3 and 5 of this report, we have considered the following:

- The level of return available to creditors under each option.
- The degree of certainty of completion of the NRG DOCA proposal and assessment of risks.
- The timing of payment of a dividend to creditors.

We set out below a comparison of the potential returns to unsecured creditors under the varied DOCA proposal with a comparison to the estimated liquidation valuation of the company, and a comparison of the effect on stakeholders under the restructured NFL:

Stakeholder	Effect of Restructuring	Liquidation
Unsecured Creditors	Admitted unsecured creditors will be issued with shares or receive the realisation proceeds of the shares under the DOCA proposal. This value is yet to be determined.	Dividend of nil cents in the dollar.
Shareholders	Preservation of NFL's corporate shell and ultimate relisting on the ASX will preserve some benefit for existing shareholders.	No return to shareholders.
Employees	The estimated dividend to employees of NFL under the NRG proposal, and subject to realisation of NFL's other assets, is equal to or greater than if NFL is placed into liquidation.	The Liquidator will need to apply to GEERS to cover the shortfall and certain employees will receive less than what they would do under the DOCA proposal due to the terms and conditions imposed by GEERS.

Having regard to the above, it is our recommendation to creditors that the NRG DOCA variations be approved by creditors of the company.

8. FURTHER QUERIES

We will advise creditors in writing, if practicable, of any additional matters that come to our attention after the dispatch of this report that, in our view, is material to creditors' deliberations.

In the meantime, should creditors have any queries, please do not hesitate to contact Adam Puddy of this office.

DATED this 9th day of August 2010.



Andrew Saker
Joint and Several Deed Administrator of
Natural Fuel Limited



Annexure 1

Summary of Receipts and Payments



Receipts	Amount (\$)
Transfer from NFD	7,913
Other Income	9,725
Sale of Assets	11,129
Accounts Receivable	68
Interest Income	861
GST Received	19,901
	49,595
Payments	Amount (\$)
Cleaning Expenses	(1,273)
Computer & Internet Expenses	(1,421)
Electricity	(1,389)
Legal Fees	(15,235)
Rent & Rates	(10,618)
Novated Lease	(5,740)
Superannuation	(20,622)
Telephone & Fax	(1,981)
Wages & Salaries	(12,243)
Sundry Expenses	(1,026)
Auctioneer Charges	(5,799)
Insurance	(1,153)
Professional Fees	(150)
Appointee Fees	(191,076)
Appointee Costs	(26,431)
PAYG / GST Payable	(64,344)
	(360,500)
Net Receipts (Payments)	(310,905)
Cash at Bank transferred from Admin Acct	424,669
Cast at Bank as at 31 July 2010	113,764