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

LISTING OF ANNEXURES

Annexure 1	Deed Administrators' Remuneration
	Liquidators' Prospective Remuneration
	The Firm's Schedule of Hourly Rates & General Guide to Staff Experience
Annexure 2	Varied DOCA Proposal
Annexure 3	Summary of Receipts and Payments

1. EXECUTIVE SUMMARY

This report should be read in conjunction with the Administrators' previous report to creditors dated 12 October 2009.

Andrew Saker, Martin Jones and Darren Weaver were appointed as Joint and Several Administrators of Natural Fuel Limited (NFL) on 9 April 2009, pursuant to Section 436A of the Corporations Act (the Act) and were subsequently appointed Joint and Several Deed Administrators on 10 November 2009.

As you would be aware, under the terms of the Deed of Company Arrangement (DOCA), the proponent of the DOCA, NRG Capital Pty Ltd (NRG) would make payment of \$575,000 to the creditors trust following satisfaction of a number of precedent conditions pursuant to the DOCA, which included:

1. Completing the Audit of NFL's statutory accounts
2. Confirmation of NFLs reinstatement to official quotation on the ASX
3. Obtaining shareholder approval on the various capital raisings sought by NRG

Following submissions by NRG of their recapitalisation plan to the ASX and subsequent discussions with the ASX, the ASX notified NRG that their submission had been rejected on the grounds that:

1. NFL's main undertaking was the production of biodiesel through its plant in Singapore, which has now been disposed of under a fixed and floating charge by Power Knight Pte Ltd.
2. Administrators and subsequently Liquidators were appointed to NFL's 50 percent joint venture with Babcock and Brown, Natural Fuel Australia and Natural Fuel Darwin.
3. Prior to our appointment, NFL wound up all the operations of its subsidiary Natural Fuel Energy Inc and terminated the services of its US based employees.

The ASX considered that the remaining activities of NFL were at most residual and that the proposed future activities of NFL appeared to necessitate a change from the production and supply of biodiesel and glycerine, NFLs principal activities prior to our appointment.

In view of the above, the ASX confirmed that NRG would be required to comply with all of the requirements of chapters 1 and 2 of the listing rules before it could be reinstated on the ASX.

In this regard, NRG has been unsuccessful in obtaining a waiver of the Chapter 1 and 2 Listing Rules from the ASX and accordingly the DOCA is unable to be completed in its current form, however the DOCA remains on foot and has been extended out to 31 August 2010 to provide NRG with further time to consider their options.

Immediately following notification from the ASX that they would not waive the Chapter 1 and 2 Listing Rules, we discussed the options that were available with NRG and sought an alternative proposal from them that may be considered by creditors.

On 19 May 2010 we received a revised term sheet and proposed variation to the DOCA from Trident Capital Pty Ltd (Trident) on behalf of NRG. A copy of the finalised term sheet is attached to this report, however I detail the major terms and conditions below:

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 will be made available (in addition to the \$150,000) to meet any shortfall in employee entitlements, in the event that the proposed DOCA does not provide a return equal to or greater than the return that employees would expect to receive under GEERS.
5. A variation to the capital raisings/post reconstruction share structure.

The DOCA proposal is discussed in greater detail in section 5 of this report.

The Deed Administrators recommend that creditors accept the proposal put forward by NRG and vary the existing DOCA for the following key reasons:

1. If the DOCA proposal put forward by NRG is not accepted by creditors, NFL will proceed into liquidation and it is unlikely that any value will be realised for NFL's corporate shell.
2. 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.
3. Admitted unsecured creditors will be issued with shares under the DOCA proposal. If the DOCA proposal is not accepted by creditors and NFL is placed into liquidation, unsecured creditors will receive no return.
4. 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.

A meeting of creditors of NFL has been convened for Tuesday , 29 June 2010 at 3.00 pm WST at the offices of Ferrier Hodgson, Level 26, BankWest Tower, 108 St George's Terrace, Perth, Western Australia. At this meeting, the following options are available to creditors regarding NFL's future:

- That the company vary the existing DOCA in terms materially consistent with NRG's varied DOCA proposal.
- That the DOCA be terminated and the company be wound up.

2. INTRODUCTION

2.1 Reconvened Second Meeting of Creditors

The reconvened second meeting of creditors of NFL was held on Tuesday, 20 October 2009 at the offices of Ferrier Hodgson, Level 26, BankWest Tower, 108 St George's Terrace, Perth WA at 2.30pm Western Standard time.

At the reconvened second meeting, creditors resolved to enter into the DOCA that was proposed by NRG, on terms materially consistent with NRG's proposal detailed in our report to creditors dated 12 October 2009.

2.2 Purpose of Report

It is proposed that NFL varies its existing DOCA which may 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 each of the following matters:

- *Whether it would be in the creditors' interests for the company to accept NRG's revised proposal and vary NFL's existing DOCA.*
- *Whether it would be in the creditors' interests for the company to be wound up.*
- *Whether it would be in the creditors' interests for the DOCA to be terminated and control of the company revert to its directors.*
- *The Deed Administrators' reasons for those opinions.*

2.3 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. These matters are discussed in greater detail below:

2.3.1 Relevant Relationships

Please note Peter Walker and Steven Sherman of Ferrier Hodgson were appointed Joint and Several Administrators of Natural Fuel Australia Limited (NFAL) and Natural Fuel Darwin Pty Ltd (NFD) under Part 5.3A of the Corporations Act 2001. NFAL is 50 percent owned subsidiary of Natural Fuel Limited.

The Administrators first met with the company's directors/advisers on or around 27 March 2009. Prior to such meetings, and to the best of the Administrators' knowledge, no prior relationship existed with the company, its directors and officers, any associated businesses, subsidiary companies within the meaning of Corporate Groups or major creditors.

Other than the above neither us, nor our firm, have, or have had within the preceding 24 months, any relationships with the Company, an associate of the Company, a former insolvency practitioner appointed to the Company or any other person or entity that has a charge on the whole or substantially whole of the Company's property.

There are no other professional relationships or engagements that should be disclosed.

2.3.2 Indemnities

Martin Jones, Andrew Saker and Darren Weaver have not been indemnified in relation to this Company, other than any indemnities that we may be entitled to under statute.

We also confirm that we have not been provided with any indemnity, guarantee or contribution from the directors or their associated businesses, a creditor or any other party for any of our fees and expenses.

Martin Jones, Andrew Saker and Darren Weaver are partners of Ferrier Hodgson. Ferrier Hodgson is one of Australia's and the Asia-Pacific's largest independent corporate restructuring practice with 40 partners and over 300 staff throughout Australia and Asia. Ferrier Hodgson does not provide accounting, audit, legal or taxation services.

Martin Jones is a Chartered Accountant, Registered Liquidator and member of the Insolvency Practitioners Association of Australia with over 25 years experience in corporate insolvency.

Andrew Saker is a Chartered Accountant, Registered Liquidator and member of the Insolvency Practitioners Association of Australia with over 20 years experience in corporate insolvency.

Darren Weaver is a Chartered Accountant, Registered Liquidator and member of the Insolvency Practitioners Association of Australia with over 17 years experience in corporate insolvency.

Further information regarding Ferrier Hodgson and the Deed Administrators can be obtained from the firm's website at www.ferrierhodgson.com.

3. STATEMENT OF POSITION

3.1 Current Dividend Estimate

The following table summarises the Deed Administrators' updated estimated statement of position under a liquidation scenario in comparison to the revised NRG DOCA scenario:

	Ref	DOCA Scenario (\$)	Liquidation Scenario (\$)
Floating Charge Assets			
DOCA Proposal - Sale of Corporate Shell	(i)	150,000	nil
Cash at Bank	(ii)	144,204	144,204
Loans Receivable (related)	(iii)	nil	nil
Total Floating Charge Assets		294,204	144,204
Fixed Charge Assets			
Investments in Subsidiaries	(iv)	nil	nil
Investments in Listed Entities	(v)	73,887	73,887
Plant & Equipment	(vi)	5,000	5,000
Total Fixed Charged Assets		78,887	78,887
Less: Deed Administrators Fees and Costs			
Incurred and undrawn Remuneration	(viii)	(34,290)	(34,290)
Deed Administrator's undrawn Disbursements		(590)	(590)
Future Prospective Remuneration	(ix)	(30,000)	(40,000)
Total Costs and Remuneration		(64,880)	(74,880)
Total Assets Available to Priority Creditors		308,211	148,211
Employee Entitlements	(vii)	(667,755)	(667,755)
Total Assets Available to Unsecured Creditors		(359,544)	(519,544)
Unsecured Creditors			
Trade Payables & Accruals	(x)	(165,835)	(165,835)
Statutory Liabilities		(39,354)	(39,354)
Convertible Bonds	(xi)	(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	(xii)	nil	nil
Directors Entitlements	(xiii)	(250,523)	(250,523)
Total Unsecured Creditors		(124,083,283)	(124,083,283)
Estimated Surplus / (Deficiency)		(124,442,827)	(124,602,827)
Estimated Return to Unsecured Creditors (Cents in Dollar)		Nil	Nil

In respect of the above, we comment as follows:

- (i) This represents NRG's proposal which provides for a cash contribution of \$150,000. For further detail in relation to this proposal refer to section 5 of this report.
- (ii) This represents the reconciled cash at bank as the 31 May 2010.
- (iii) This is represented as follows:

Entity	Amount (\$)	ERV	Notes
			Both Receivers and Managers and Liquidators have been appointed.
NFPL	183,660,776	nil	The Bio-diesel plant has subsequently been sold to a related party of the secured creditor and no return is expected to unsecured creditors of NFPL
NFE	195,228	nil	All operations in USA have ceased
NFAL	57,478	nil	NFL waived its right to make a claim under the DOCA of NFAL and NFD.
Total	183,913,482	nil	

- (iv) This is represented as follows:

Entity	Amount (\$)	ERV	Notes
NFPL	3,121,302	nil	In Receivership/Liquidation
NFAL	801,278	nil	Subject to DOCA
Total	3,922,581	nil	

- (v) This is in respect to 1.08 million shares owned by NFL in GEM Biofuel PLC at the price of 4 pence, converted into AUD, based on an offer recently received. The current market price as quoted on the AIM is 8.75 pence.

Please note that this is only the third offer that we have received since the date of our appointment, and in light of a better offer, we will be accepting this shortly.

I further note that there is very low liquidity in this stock. The total traded volume over the last seven months is 745,000 shares. This equates to a weekly volume of 26,000 shares.

- (vi) This is the expected proceeds from the realisation process of office furniture conducted by our auctioneers and valuers that will be received within the next 15 days.
- (vii) This represents notice, redundancy and annual leave that is outstanding to employees of NFL in accordance with their contracts which have now been agreed with the employees. Please note that if the company is placed into liquidation there will be insufficient funds to pay employees and the liquidators will need to apply to GEERS, a government run scheme.

- (viii) Outstanding fees and expenses for the period 9 April 2010 to 31 May 2010 that have been incurred and remain undrawn to date.
- (ix) Incurred and estimated fees and expenses for the period 1 June 2010 to finalisation.
- (x) This amount is a combination of the amounts payable by NFL in accordance with the books and records of the company and proof of debts lodged by creditors to date.
- (xi) The NFL group raised US\$80 million through the issuing of convertible bonds in two identical tranches on 10 April 2007 and 26 April 2007. The term of the bonds is five years with expiry in April 2012 at a prescribed rate of 6.75 percent per annum.

Coupon payments in the amount of \$2.7 million were due in 6-monthly instalments, due in April and October.

- (xii) This was in respect to amounts lent to NFL and secured against the assets of NFPL with respect to working capital requirements. Effectively Power Knight and Delma Commodities are unsecured creditors of NFL and secured creditors of NFPL. Please note that the assets of NFPL were realised at an amount equal to their secured debt and they are now no longer creditors of NFL.
- (xiii) We note that directors' entitlements are capped under the Act and the quantum of the remaining balance ranks as an unsecured claim against the Company.

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 May 2010 are attached as **Annexure 3**.

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.

For ease of reference, we summarise below the likely date of insolvency of NFL:

Assessment Areas	Date Relevant to Solvency Assessment
Financial Assessment	
Working Capital Deficiency	November 2008
Source of Funding	
External Finance Declined	April 2009
Other Insolvency Indicators	
Aged Trade Payables Outside of Terms	April 2009
Statutory Payments in Arrears	April 2009

Our investigations indicate that it is unlikely that NFL was insolvent at the time of our appointment. However, given that NFL was declined further funding on or around 9 April 2009 and that interest on the convertible Bonds was due on 10 April 2009, it appears that NFL would categorically have been insolvent on or around the 10 April 2009 if it did not appoint administrators. As noted earlier in our report dated 7 August 2009, a Liquidator would be required to conduct further analysis and determine the exact date of insolvency.

Further to the above, we have reviewed the defences available to the directors and, in conjunction with our preferred view of the date of insolvency, this review suggests that there is unlikely to be any significant claim against the directors for insolvent trading that would result in a recovery for unsecured creditors.

We have not identified any transactions that may be classed as uncommercial or voidable transactions.

Accordingly, there appears to be no commercial benefit for creditors to resolve to wind up NFL.

5. PROPOSAL FOR DEED OF COMPANY ARRANGEMENT (DOCA)

5.1 Statement of Proposed DOCA

As discussed previously, at the meeting of creditors of NFL held on 20 October 2009, creditors resolved that the Company execute a DOCA pursuant to Part 5.3A of the Corporations Act 2001 on the terms proposed by NRG as detailed in the Second Administrators' Reports to Creditors dated 12 October 2009.

The DOCA was executed on 10 November 2009 and lodged with the Australian Securities and Investments Commission on 11 November 2009.

As set out in the Second Administrators' Reports to Creditors dated 12 October 2009, it was anticipated that unsecured creditors would receive a dividend of 0.02 cents subject to the effectuation of the condition precedents contained within the DOCA, which were as follows:

1. Audit of NFL's statutory accounts.
2. Confirmation of NFL's reinstatement to official quotation on the ASX.
3. Shareholder approval for the following:
 - (i) The issue to NRG capital of 575 million shares in the Company at 0.1 cents per share to raise \$575,000.
 - (ii) A non-renounceable rights issue of one new share for every two shares held and one free option (exercisable at one cent on or before 1 December 2012) for every two shares subscribed at a price of 0.0026 cents per new share to raise approximately \$1,406,095.
 - (iii) The appointment of Joshua Wellisch as a Director of the Company

I confirm that the audit of NFL's statutory accounts was completed, however following submissions by NRG of their recapitalisation plan to the ASX and subsequent discussions with the ASX, the ASX notified NRG that their submission to be reinstated onto the official quotation of the ASX had been rejected on the grounds that:

1. NFL's main undertaking was the production of biodiesel through its plant in Singapore, which has now been disposed of under a fixed and floating charge by Power Knight Pte Ltd.
2. Administrators and subsequently Liquidators were appointed to NFL's 50 percent joint venture with Babcock and Brown, Natural Fuel Australia and Natural Fuel Darwin.
3. Prior to our appointment, NFL wound up all the operations of its subsidiary Natural Fuel Energy Inc and terminated the services of its US based employees.

The ASX considered that the remaining activities of NFL were at most residual and that the proposed future activities of NFL appeared to necessitate a change from the production and supply of biodiesel and glycerine, NFLs principal activities prior to our appointment.

In view of the above, the ASX confirmed that NRG would be required to comply with all of the requirements of chapters 1 and 2 of the listing rules before it could be reinstated on the ASX.

In view of the above, we have received a varied DOCA proposal for the reconstruction and recapitalisation of NFL. Broadly, this offer proposes that the DOCA and creditors trust be varied as set-out below, with the intention that NFL relists on the ASX. The offer also proposes a variation to the share consolidation and the issuing of further shares.

The detailed final offer from Trident on behalf of NRG is attached to this report as **Annexure 2**.

The NRG varied DOCA proposal submitted is detailed below:

Key Elements	Proposed Variations to DOCA
Proponent	NRG Capital and its nominees (Syndicate)
Cash Consideration	\$150,000:
	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.
	The deposit is fully refundable if the transaction does not proceed.
	In full and final satisfaction of creditor claims
Structure	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.
	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.
Timing	See terms of cash consideration
Assets Purchased	In effect, the NFL shell through the capital raising described below.
Retained assets	1. The shareholding in NFAL (and their assets)
	2. The shareholding in NFE (and their assets)

Key Elements	Proposed Variations to DOCA
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 in satisfaction of all admitted unsecured creditor claims. 3. Issue of five million shares at \$0.10 per share to NRG to raise \$500,000 following shareholder approval. 4. Issue 2.5 million to five million shares at \$0.10 per share to raise \$250,000 to \$500,000 at IPO.
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.
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 the shortfall in 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 the shortfall in employee entitlements. ■ 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 the shortfall in 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.

Key Elements	Proposed Variations to DOCA
Employee Entitlements	The amount of \$51,411.62 will be made available to meet any shortfall in employee entitlements. In the circumstances described above, the Syndicate will meet any employee shortfall in entitlements received in the DOCA to a maximum of \$51,411.62.
Unsecured Creditor Claims	400,000 shares will be distributed to admitted unsecured creditors on a pari passu basis, proportionally to the amount of debt that they are admitted for in the creditors trust.
Other Terms and Conditions	All other terms and conditions (other than those detailed above) are consistent with those set out in the DOCA executed on 10 November 2009.

The estimated position of NFL under the varied DOCA proposal is tabled below:

	NRG DOCA Proposal (\$)
Floating Charge Assets	
DOCA Proposal - Sale of Corporate Shell	150,000
Cash at Bank	144,204
Loans Receivable (related)	nil
Total Floating Charge Assets	294,204
Fixed Charge Assets	
Investments in Subsidiaries	nil
Investments in Listed Entities	73,887
Plant & Equipment	5,000
Total Fixed Charged Assets	78,887
Less: Deed Administrators Fees and Costs	
Incurred and undrawn Remuneration	(21,785)
Deed Administrator's undrawn Disbursements	(590)
Future Prospective Remuneration	(30,000)
Total Costs and Remuneration	(64,880)
Total Assets Available to Priority Creditors	308,211
Employee Entitlements	(667,755)
Total Assets Available to Unsecured Creditors	(359,544)
Unsecured Creditors	
Trade Payables & Accruals	(165,835)
Statutory Liabilities	(39,354)
Convertible Bonds	(119,127,571)
Loan-Delma Commodities Pte Ltd	nil
Loan - Ganesha Nominees Pty Ltd	(4,500,000)
Loan from Power Knight	nil
Directors Entitlements	(250,523)
Total Unsecured Creditors	(124,083,283)
Estimated Surplus / (Deficiency)	(124,442,827)
Estimated Return to Unsecured Creditors (Cents in Dollar)	Nil

Please note that the Statement of Position excludes the amount of money that Trident may be required to provide to "top up" any employee entitlement shortfall, to a maximum of \$55,411.62. It also excludes the number and value of the shares that will be distributed to admitted unsecured creditors.

We advise that we have reviewed the revised variation DOCA proposal from the perspective of both the conditions that they entail and their expected returns to creditors. On the basis of that review, we recommend that creditors resolve to accept the revised reconstruction and recapitalisation proposal put forward by NRG.

5.2 Key Commercial Features

We summarise below the conditions precedent to completion of the DOCA:

- Approval by creditors at the meeting of creditors convened for Tuesday, 29 June 2010 to give effect to the revised NRG variation DOCA proposal.
- NFL's shareholders giving the necessary shareholder approvals to give effect to the proposal.
- Variation of the Creditors' Trust Deed and DOCA.

In the event that the recapitalisation of NFL is not successful in any way (ie any of the conditions precedent to completion of the DOCA are not satisfied within two months after the date of execution of the varied DOCA, or become unlikely to be satisfied for whatever reason in the Deed Administrators' opinion) then the Deed Administrators may assume control of NFL, the DOCA will terminate and NFL will enter into liquidation, unless the DOCA is varied following approval by creditors of NFL.

In the event that any of the conditions precedent to completion of the DOCA of NFL become unlikely to be achieved (in the Deed Administrators' opinion), the Deed Administrators will as soon as practicable issue a report to creditors explaining the relevant circumstances and convene a meeting to consider a resolution to vary or terminate the DOCA.

The variation to the DOCA continues to see the preservation of some value for existing shareholders if NFL is relisted on the ASX.

In view of the above, the Deed Administrators recommend that creditors accept the proposal put forward by NRG and vary the existing DOCA for the following key reasons:

1. If the DOCA proposal put forward by NRG is not accepted by creditors, NFL will likely proceed into liquidation and it is unlikely that any value will be realised for NFL's corporate shell.
2. 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.
3. Admitted unsecured creditors will be issued with shares under the DOCA proposal. If the DOCA proposal is not accepted by creditors and NFL is placed into liquidation, unsecured creditors will receive no return.
4. 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

6. ASIC'S GUIDE TO DOCA'S INVOLVING CREDITORS' TRUSTS

The ASIC has issued a guide for Registered Liquidators recommending the provision of certain information to creditors when they are considering approving a DOCA which also includes a Creditors' Trust being implemented.

The NRG revised DOCA proposal will require that NFL enter into a Creditors' Trust. In this regard, we outline for creditors some important information to consider when considering whether to approve a Creditors' Trust:

6.1 What is a Creditors' Trust?

A Creditors' Trust in a DOCA is a mechanism used to accelerate a company's exit from external administration. Typically under the terms of the DOCA and one or more interconnected deeds, a trust entity is created and the company's obligations to some or all of its creditors bound by the DOCA are compromised and transferred to the trust. Those creditors become beneficiaries of the trust.

Usually, the DOCA is "effectuated" (and terminates) after the creditors' claims against the company have been removed in this way. In most cases, the DOCA terminates immediately upon creation of the trust, which usually occurs when or shortly after the DOCA is executed.

When the DOCA terminates, the company ceases to be externally administered, the directors (in this case new directors) regain full control of the company and the company is no longer required to use the notification "Subject to Deed of Company Arrangement" on its public documents as otherwise would be required by Section 450E(2) of the Act.

6.2 Reasons for a Creditors' Trust

The main reason for the inclusion of a Creditors' Trust with the DOCA proposals is to allow NFL to become relisted on the ASX. A company cannot requote on the ASX if it is subject to a DOCA.

The Creditors' Trust provides a structure whereby creditors' claims can be dealt with by the Trustee of the Creditors' Trust and the DOCA can end, thereby allowing the company to be requoted on the ASX.

Without NFL being requoted on the ASX, the interest of parties wanting to restructure the company would be limited.

For the ASX to lift NFL's suspension, the company must be able to comply with ASX listing rules 1 and 2.

Key Events and Terms

If a DOCA proposal is approved by creditors, a number of key events will occur prior to NFL's eventual relisting on the ASX, including:

- A reconvened meeting of creditors has been convened for Tuesday, 29 June 2010 to consider the DOCA proposal for the restructure of NFL.
- Notices convening a shareholders' meeting to be issued to shareholders in order to seek resolutions pertaining to the capital raisings.
- Removal of current directors and new nominees of the proponent being appointed as directors of NFL following execution of NFL's DOCA.
- Satisfaction of other remaining conditions precedent as discussed above and subsequent execution of the Creditors' Trust Deed and transfer of relevant assets to the Creditors' Trust pursuant to the terms of the DOCA.

Creditors must note that if either creditors or shareholders do not approve the proposed restructure or the conditions precedent under the DOCA are not met then the Deed Administrators may elect to convene a meeting of creditors to vary or terminate the DOCA.

Anticipated Return

Based upon the records of NFL and our estimate of the likely realisable value of NFL's assets, it is estimated that under NRG's DOCA proposal a return of approximately 46 cents in the dollar would be distributed to employees of NFL. As mentioned previously, the return to unsecured creditors cannot be established until the shares that are to be distributed to admitted unsecured creditors list on the ASX.

Preservation of NFL's corporate shell and ultimate relisting on the ASX will preserve some benefit for existing shareholders. If the DOCA proposal did not involve a Creditors' Trust, NFL would not be able to relist on the ASX as proposed under the DOCA and thus it likely that NRG (or any other party for that matter) would be reluctant to put forward a DOCA as proposed on similar terms.

Trustee Particulars

It is proposed that the current Deed Administrators will assume the role of Trustees of the Creditors' Trust should it be approved. By appointing the current Deed Administrators as Trustees of the Trust, there is a cost saving compared with appointing a different Trustee. The Deed Administrators have detailed knowledge of the background to the restructure which a different Trustee would have to acquire at a substantial cost to the Trust.

Under a DOCA, creditors may apply to the Court for orders in relation to the Deed Administrators' performance of their duties under the Act. A beneficiary under a Creditors' Trust could also apply to the Court under the Trustees Act 1962 (WA) in relation to the Trustees' performance of their duties.

Remuneration and Indemnities

It is proposed that the Trustees would be remunerated on a time incurred basis calculated at rates set down by Ferrier Hodgson from time to time. The current rates as at July 2009 are as follows:

	Rate Per Hour (\$)
Partner	540
Director	460
Senior Manager	390
Manager	325
Supervisor	285
Senior 1	255
Senior 2	230
Intermediate 1	185
Intermediate 2	155
Senior Secretary	150
Junior/Filing	130

The estimated fees likely to be incurred under the DOCA and a Creditors' Trust are estimated at \$30,000 exclusive of GST.

It should be noted that this amount is an estimate only and should the actual costs be lower, then it is likely that this will ultimately result in more funds being made available for distribution to creditors.

As part of the proposed DOCA and Creditors' Trust, the Deed Administrators and Trustees would have an indemnity secured by a lien over the assets of the company and the trust fund respectively.

Powers

The Trustee of the new trust becomes solely responsible to the former creditors (now beneficiaries) for:

- Ensuring that the company and/or other third parties perform their obligations to the Trustee.
- Determining how much each of the former creditors is entitled to receive from the trust.
- In due course, making any distribution to those former creditors.

In addition to the above, the Trustees are likely to have the following powers:

- To administer the Trust Fund.
- To ensure that the company fulfils its obligations under the DOCA and to take such legal proceedings or other steps as the Trustees think fit to enforce those obligations.
- To fulfil the Trustees' obligations in terms of the DOCA.

- To admit claims to proof in accordance with the provisions of the DOCA and the Trust Deed.
- To make interim or other dividend payments to creditors or distributions of the Trust Fund.
- To appoint agents to do any business or attend to any matter or affairs of the Trust that the Trustee is unable to do or that it is unreasonable to expect the Trustee to do in person.
- To appoint a solicitor, accountant or other professionally qualified person to assist the Trustees.
- To compromise any claim on such terms as the Trustees consider fit.
- Having taken an assignment of all causes of action, to prosecute such of those actions as the Trustees consider fit.
- To do anything else that is necessary or convenient for administering the Trust.

These powers are provided for the benefit of creditors in determining whether to accept the proposed DOCA. However these powers may be varied prior to finalisation of the Trust Deed.

Claims

Creditors will no longer be creditors under the DOCA but will instead become beneficiaries of the Creditors' Trust. For the purpose of determining the admissibility and ranking of creditors'/beneficiaries' claims in the Trust, regulations 5.6.39 to 5.6.72 and Sub-divisions A to E of Division 6 of Part 5.6 of the Act and Regulations shall apply to the Trust and the Trustees as if the references to a Liquidator were references to the Trustees, references to winding up were references to the Trust and with such other modifications as are necessary to give effect to the Trust. To ensure that those provisions apply to the Creditors' Trust, they will be incorporated into the Creditors' Trust to apply as contractual provisions.

For the purposes of any distribution to priority creditors detailed above, any reference to a Liquidator or liquidation under Section 52 of the Superannuation Guarantee (Administration) Act 1992 (Cth), shall read Deed Administrator or Deed Administration respectively for the purposes of the DOCA and Creditors' Trust respectively for the purpose of the Trust Deed.

Creditors, including secured creditors to the extent of the unsecured portion of their debts, will not be permitted to take recovery action against the company for pre-administration debts during the period of the DOCA.

Compliance Opinion

In our opinion, and based upon our discussions with and knowledge of the Proponents, we believe that NRG is capable of complying with the terms of the DOCA and their obligations to the Trustee if the DOCA proposal is accepted by creditors.

Solvency Statement

At the time the DOCA will be wholly effectuated, NFL will be solvent. This will occur as a result of:

1. After the proposed capital raising, NFL is estimated to hold a cash balance of approximately \$750,000 to \$1 million, subject to costs.
2. Effect on the DOCA on claims against the company, i.e. pre-administration claims being transferred to the Creditors' Trust and as such NFL will have no liabilities other than those incurred by the recapitalised NFL moving forward.

Tax (Company/Trust)

Creditors should note that there may be income tax and stamp duty implications for the company and the Trust associated with the abovementioned proposal.

The Trust may be required to register for GST purposes and apply for a new Tax File Number. In addition, the Trustees may also be responsible for lodging income tax returns for the Trust with the Australian Taxation Office.

It should be noted that any carry forward income or capital losses in NFL will not be available for offset against any assessable income made by the Trust.

Tax (Creditor/Beneficiary)

Our preliminary view is that by assigning creditors' claims to the Trust any dividend paid to creditors would be treated the same as if creditors had received the dividend from the company under Administration. That is, we do not foresee any tax disadvantages to creditors with the proposed DOCA and Creditors' Trust.

The proposed DOCAs and Creditors' Trust also enables the Trustee to make distributions to the beneficiaries of the Trust (as opposed to the repayment of creditors' claims outlined above). Under this scenario however, the Trustee may be required to withhold tax from distributions to non-resident beneficiaries at the applicable tax rates.

Creditors are encouraged to seek their own independent legal advice in relation to the possible taxation consequences of receiving a distribution from the proposed Creditors' Trust.

Other

A copy of the varied DOCA will be lodged with ASIC as required and will be available for inspection upon request.

7. CREDITORS' OPTIONS, DIVIDEND ESTIMATES AND COST ESTIMATES

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

- The company be wound up.
- The company should terminate the existing DOCA and control of the company revert to its directors.
- The company vary the existing DOCA in terms materially consistent with NRG's proposal.

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

7.1 Winding up of NFL

We note that the current assets of NFL which are available for realisation for the benefit of creditors of NFL under the proposed variation to the DOCA are greater than the assets which would be available in a liquidation scenario. NRG's DOCA proposal provides for additional assets to be made available (ie cash contribution of \$150,000).

The costs of winding up the Company's affairs are estimated at \$40,000.00 exclusive of GST.

Accordingly, given that the varied DOCA proposal put forward by NRG proposes a equal or greater return to creditors of NFL than in a liquidation scenario, as set out in section 5 of this report, we are of the opinion that the company should not be wound up.

7.2 Proposed Variation to the DOCA

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

1. If the varied DOCA proposal put forward by NRG is not accepted by creditors, NFL will likely proceed into liquidation and it is unlikely that any value will be realised for NFL's corporate shell.
2. 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.
3. Admitted unsecured creditors will be issued with shares under the DOCA proposal. If the DOCA proposal is not accepted by creditors and NFL is placed into liquidation, unsecured creditors will receive no return.
4. 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 varied DOCA proposal put forward by NRG.

8. DEED ADMINISTRATORS' OPINION

The only options available to creditors are to wind up the company or 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. Please note that the estimated return to unsecured creditors will be based on the initial relisting price of the NFL, following its restructure.

Accordingly, it is our opinion that creditors resolve to accept the varied 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 under the DOCA proposal.	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 proposal be approved by creditors of the company.

9. REMUNERATION AND DISBURSEMENTS

At the third meeting of creditors, we intend seeking approval for the following remuneration.

9.1 Deed Administrators' Remuneration

We advise that at a meeting of the Committee of Creditors held on 29 June 2009 the Committee resolved unanimously to approve the Administrators' remuneration of \$147,630.67 plus GST for the period 9 April 2009 to 19 June 2009 which has been drawn by the Administrators.

Administrators' remuneration for the period 20 June 2009 to 2 October 2009 in the amount of \$86,906.65 excluding GST was previously approved by creditors, however, this amount has been drawn by the Administrators.

Administrators' remuneration for the period 3 October 2009 to 31 May 2010 in the amount of \$101,014.57 excluding GST in accordance with the summary as set out in **Annexure 2**. We note that a provision in the sum of \$15,000.00 excluding GST was previously approved by creditors for the period 3 October 2009 to 20 October 2009.

We further note that an estimate of \$75,000.00 excluding GST was previously approved by creditors for the duration of the DOCA period from 21 October 2009 until the completion of the DOCA. Given these estimates have been previously approved by creditors, the Deed Administrators' have drawn part of the total fees incurred for the period 3 October 2009 to 31 May 2010 (as detailed in A5 of the enclosed Remuneration Report). However, we now seek approval for the outstanding fee costs incurred for this period totalling \$34,290.34.

The Deed Administrators' provide a prospective provision for remuneration for the period 1 June 2010 to the finalisation of the DOCA in the amount of \$30,000.00 excluding GST in accordance with the summary as set out in **Annexure 2**.

9.2 Prospective Liquidators' Remuneration

In the event creditors vote to wind up the Company, that a provision for the Liquidators' remuneration in the amount of \$40,000 excluding GST be approved. The amount is an estimate only as it is not possible, at this stage, to state a precise amount. An actual fee summary will be presented to creditors for approval. A summary of the anticipated tasks is set out in **Annexure 2**.

The Deed Administrators, (or, where appointed, Liquidators) seek approval of their remuneration on a time basis in accordance with Ferrier Hodgson's schedule of hourly rates set out in **Annexure 2**.

9.3 Prospective Deed Administrators' Remuneration

In the event creditors vote to approve the variation to the DOCA, that a provision for the Deed Administrators and Trustees remuneration in the amount of \$30,000 excluding GST be approved. The amount is an estimate only as it is not possible, at this stage, to state a precise amount. An actual fee summary will be presented to creditors for approval. A summary of the anticipated tasks is set out in **Annexure 2**.

The Deed Administrators seek approval of their remuneration on a time basis in accordance with Ferrier Hodgson's schedule of hourly rates set out in Annexure 2.

Disbursements incurred by the Deed Administrators during the period 3 October 2009 to 31 May 2010 are tabled below:

Disbursement	Total (\$)
Advertising	721
Courier	99
Telephone	1,490
Facsimile	16
Postage	317
Search	83
Taxis & Parking	204
Photocopying	160
Storage	1,743
Printing	3,284
Total	8,117
Add GST (10%)	812
Total Including GST	8,929

To date disbursements in the amount of \$40,402.61 (exclusive of GST) have been drawn by the Deed Administrators.

Details of the basis on which disbursements are charged are contained in **Annexure 2**.

10. 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 17th day of June 2010.



Andrew Saker
Joint and Several Deed Administrator of
Natural Fuel Limited



Annexure 1

Deed Administrators' / Trustees' Remuneration

Liquidators' Remuneration

The Firm's Schedule of Hourly Rates



Annexure 2

DOCA Proposal



Annexure 3

Summary of Receipts and Payments



Receipts	Amount (\$)
Sale of Plant & Equipment	2,080
Interest Income	861
Accounts Receivable	68
Transfer from VA Bank Account	424,669
GST Received	16,780
Other Income	9,725
Total	454,183

Payments	Amount (\$)
Cleaning Expenses	(1,273)
Computer & Internet Expenses	(1,421)
Electricity	(1,389)
Legal Fees	(8,921)
Rent & Rates	(10,618)
Novated Lease	(5,740)
Superannuation	(20,622)
Telephone & Fax	(1,981)
Wages & Salaries	(12,243)
Sundry Expenses	(1,026)
Insurance	(1,153)
Professional Fees	(150)
Appointee Fees	(153,357)
Appointee Costs	(25,742)
PAYG / GST Payable	(64,344)
Total	(309,980)
Cash at Bank as at 2 October 2009	144,203