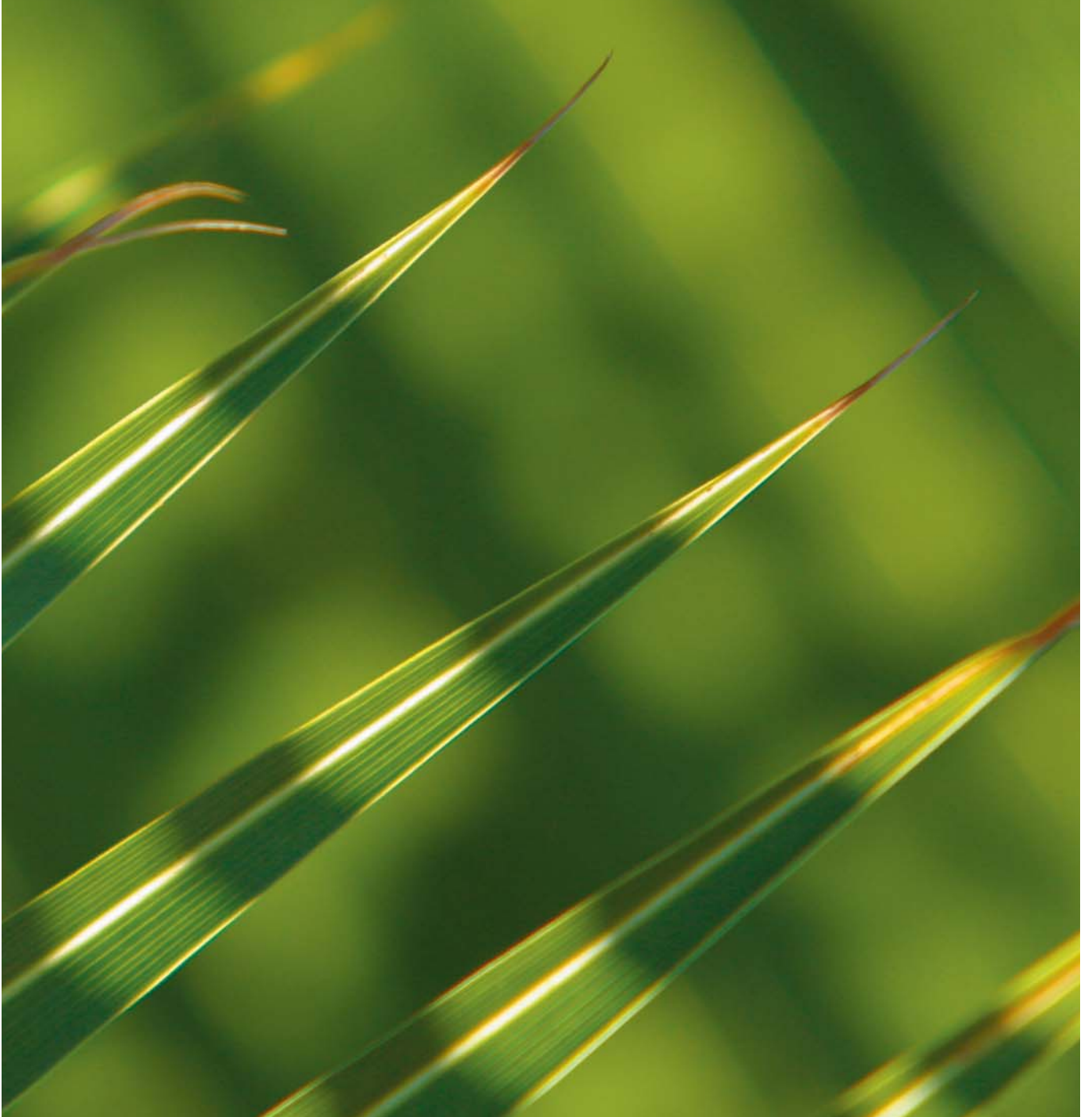


MISSION BIOFUELS ANNUAL REPORT 2006

ONE MISSION : ONE FUEL : BIOFUEL





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CHAIRMAN'S LETTER



Dear Shareholder

I am very pleased to present you with the first Annual Report for Mission Biofuels Limited.

Right at the outset, let me thank you for your very strong support and confidence. As at 30 June our shareholder numbers stood at 725 up from 582 at our IPO a couple of months earlier. On behalf of all directors I would also like to thank the executive team, our corporate advisors Argonaut Capital and our legal advisors Deacons for a very successful listing on 4 May 2006, approximately 2 weeks ahead of schedule. Since listing we have traded in the range of \$1.28 to \$1.88 after opening at \$1.29, a substantial premium to our listing price of \$1.00.

I am pleased to report that excellent progress is being made against our prospectus deliverables and that we are in for some exciting times over the next 12-18 months. Apart from the commissioning of our first plant we expect to commence and commission our second plant and also to move forward with the Jatropha feedstock project.

Most significantly, the recent announcement by the German Federal Government concerning the compulsory blending of biodiesel into petroleum based diesel beginning 1 January 2007 reinforces further Mission Biofuels' business model.

The directors and executive management are focussed not only on the delivery of the company's financial imperatives but at staying at the forefront of the biodiesel industry and the delivery of sustainable growth into the future.

I look forward to an exciting year ahead and catching up with you at our AGM.

Yours sincerely

Dario Amara



HIGHLIGHTS



4 May 2006 MBT lists 2 weeks early on ASX and opens at \$1.29

Notices to proceed issued to Crown and Hexagon on 18 May 2006

Site works commenced 18 May 2006

Ground Breaking officiated by Malaysian Deputy PM on 2 June 2006

Granting of additional 200,000 tpa manufacturing Licence for Kuantan site
- 2nd plant would increase annual production capacity to 300,000 tpa

Approval of 5 year 100% Pioneer Tax Holiday for second plant

Kuantan port operator advises new berth adjacent to Mission site
will be completed by early 2007





Project Manager Konpro/SKM advise they expect commissioning ahead of Prospectus timetable

Mission's technology provider, Crown, successfully commissions another 100,000 tpa plant in USA

Additional land at Kuantan leased to allow for growth up to 500,000 tpa

Feasibility study on alternative oil crop now completed by The Energy Research Institute of India

German government introduces requirement for compulsory blending of 5% biodiesel (by volume) beginning 1 January 2007

Biodiesel exported from Malaysia not subject to 6.5% import duty



MANAGING DIRECTOR'S REPORT

Dear fellow shareholders,

It gives me great pleasure, on behalf of the Board of Directors of the company, to present our very first annual report to you. It has been a momentous year which has seen your company list on the ASX after a very successful capital raising and immediately commence construction of our very first 100,000 tonnes per annum (tpa) Biodiesel refinery at Kuantan port in Malaysia. The company is therefore well on its way to achieving its stated objective to become the pre-eminent biodiesel producer in the region.

I am pleased to report that we are achieving remarkable progress in a number of areas:-

CONSTRUCTION

Construction commenced immediately after listing with notices to proceed being issued to both the Crown Iron Works Company and Hexagon Tower Sdn Bhd on 18 May 2006. With Earthworks having been completed and piling vigorously in progress, the first pour of concrete was achieved on 25 August 2006, approximately 4 weeks ahead of the prospectus schedule.

Other key milestones that the company is looking forward to achieving in the coming months are as follows:-

Key Milestones	:	Schedule as per prospectus
Handover of process building slab to Crown Iron Works	:	15 November 2006
Completion of Piling Works	:	4 December 2006
Delivery of Crown Plant begins	:	15 January 2007
Mechanical Completion	:	15 July 2007
Commencement of Commissioning	:	1 August 2007
Completion of Commissioning	:	15 September 2007
Commencement of Commercial production	:	1 October 2007

Both Crown and Hexagon have also committed to an accelerated build schedule i.e. one that is earlier than what has been proposed in the prospectus and we will track their performance and make regular announcements to shareholders as and when the above milestones are achieved.

Our project Manager, KONPRO, is confident that the project will be delivered on time and within budget.

In June 2006, a 3rd 100,000 tpa plant supplied by Crown was successfully commissioned in Iowa, USA. This has given us further confidence that Crown will deliver on guaranteed performance parameters and will be on target to deliver our plant on schedule.

FINANCIAL PERFORMANCE

The company made a loss after tax of \$0.6 million for the period ended 30 June 2006. This compares favourably with our prospectus projection of a \$2.2 million loss after tax, a reflection of the prudent management practices adopted by the company.

The Crown contract is in US\$ while the Hexagon contract is in MYR. Soon after the IPO, the company forward purchased the entire payments due under both the contracts, thereby fully eliminating foreign currency exposure on our cash reserves for both contracts.

MARKET DEVELOPMENTS

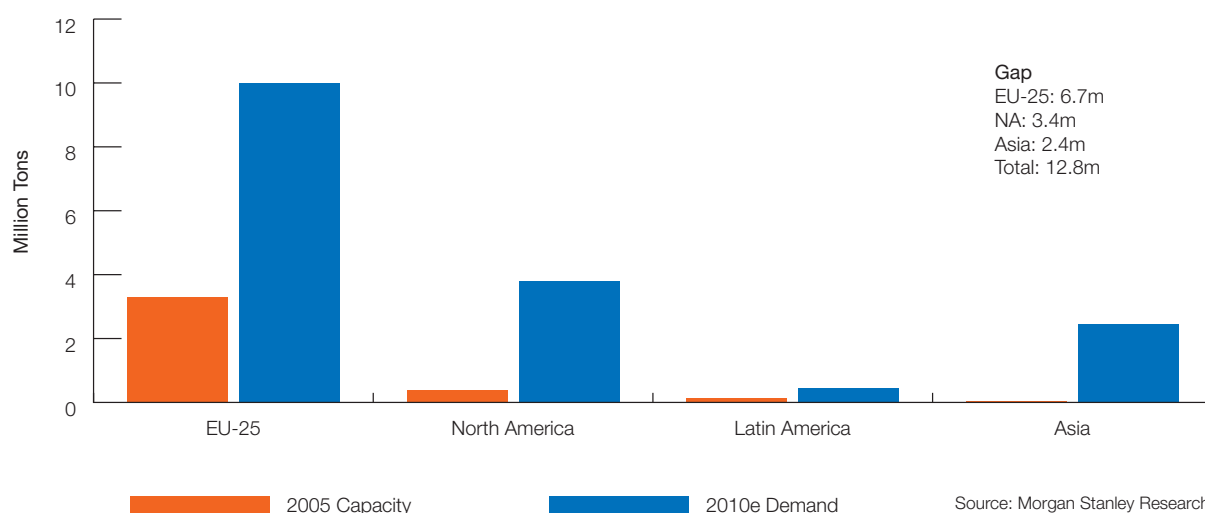
Biofuels are being taken ever more seriously by more governments around the world because of a) increasing appreciation of the need for a greener environment b) rapidly increasing price of crude oil c) threats to energy security in the fast changing geo-political equations in the world . Several states in the US have mandated a 2% to 5% biodiesel blend. The US government, in addition, is providing significant tax incentives for the use of biodiesel.



Large markets are set to open up in Asia especially in India, Indonesia, Japan, South Korea and China. Several policy announcements in these countries are expected during the next few months.

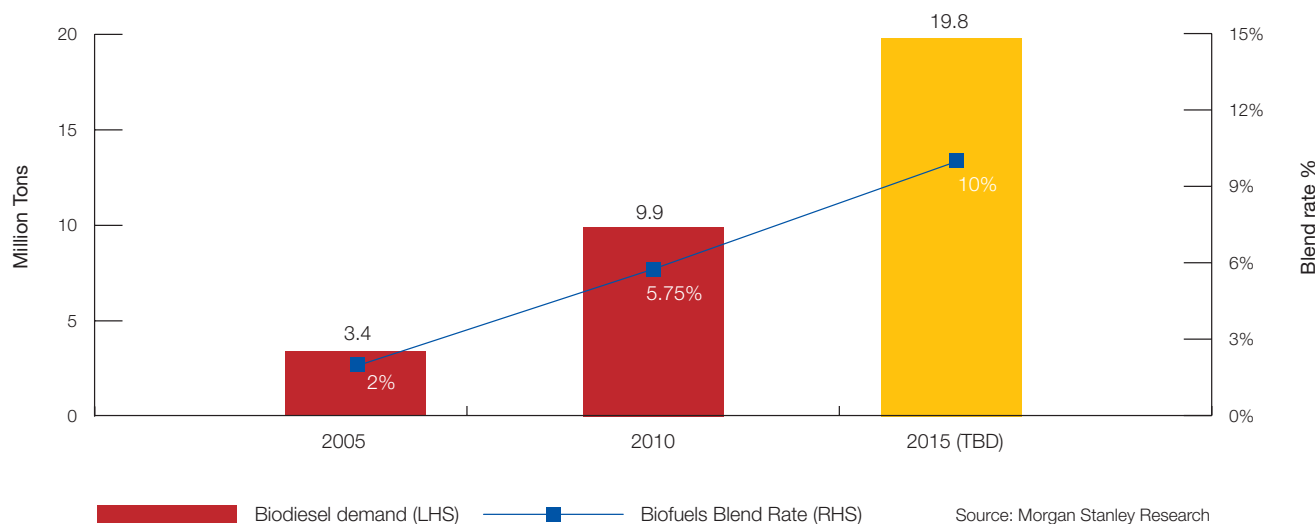
However, Europe, which is the company's main target market, continues to lead the rest of the world and we expect this trend to continue. Key reasons for this are regulatory support to increase domestic energy security and reduce greenhouse gas emissions, the rising diesel consumption as opposed to petrol and the expected shortage of diesel refining capacity in Europe.

Biodiesel is Predominantly a European Story



Biofuels are at the core of the European Union (EU) Energy policy. Since 2003, the EU has set a non-mandatory blending target for Biofuels at 2% by 2005 and 5.75% in 2010. Member countries have mainly responded by providing tax incentives to encourage the use of Biofuels. Once the market gets off, member countries will gradually replace tax incentives with mandatory blending.

Increasing Blend Rates Will Fuel Growth



We are encouraged by the recent policy announcements in the EU mandating the blending of biodiesel. For example, the larger markets in the EU, viz., Germany, UK, Austria, Holland, and Italy have already announced or enacted legislations for mandatory blending of biodiesel in fossil diesel. In some cases, these mandatory obligations exceed the targets set by the EU.

In July 2006, Germany announced that it will require oil companies and refiners to compulsorily blend 5% of Biodiesel by volume into all petroleum based diesel sold in Germany from 1 January 2007 instead of merely promoting the use of Biofuels by tax incentives. We believe that this is a very favourable development for your company as:-

- (1) the 5% target will increase and cement volumes of biodiesel use in Germany in 2007 rather than by 2010
- (2) the blended (B5) market will grow and this is the market for which your company's products are intended for as opposed to European producers whose product is mainly intended for the pure (B100) biodiesel market.
- (3) the company's low cost competitive strategy comes to the fore

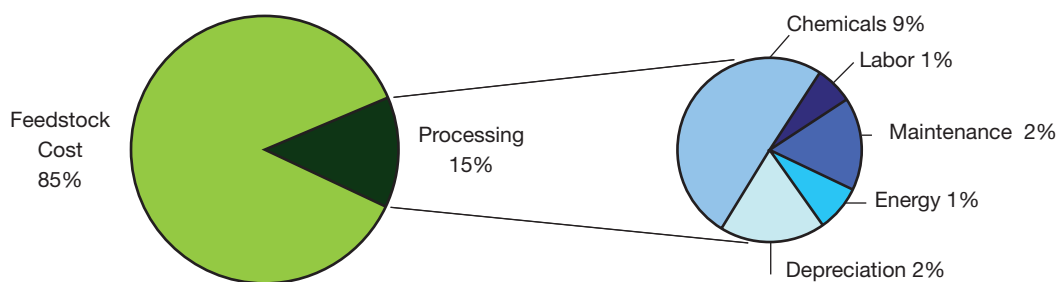
It has been reported that the EU is also studying a 10% blend and if feasible, the mandatory blending targets will most likely be increased accordingly. It is felt that blends of 10% to 15% are technically feasible provided high quality biodiesel is used.

FEEDSTOCKS

Crude Palm Oil (CPO) is our feedstock of choice, although the plant is designed to run as efficiently on various other high quality vegetable oil feedstocks. This is because CPO is most abundantly available and is the cheapest vegetable oil. Using CPO rather than processed palm oil also produces a valuable by-product, Palm Fatty Acid Distillate (PFAD). So while ensuring that we use the cheapest feedstock, we also derive additional revenue for the by-product.

Feedstock is the key driver in the biodiesel business. Almost 85% of the biodiesel production cost is feedstock related. Therefore, small changes in feedstock prices can end up making large changes in production costs, thereby squeezing margins.

Feedstock Costs Represent Majority of COGS



The company therefore adopts a very proactive feedstock strategy designed to secure adequate quantities of quality, homogenous feedstock at the cheapest prices.



During the year, your company also announced the completion of the feasibility study on the cultivation of Jatropha as an alternative feedstock source for biodiesel production. The study which was carried out for us by The Energy Research Institute of India concluded that Jatropha is a feasible and viable alternate feedstock for the production of biodiesel. The company is currently finalising its business plan to guide its foray into Jatropha cultivation and details of this plan will be announced shortly.

PROSPECTS & FUTURE STRATEGY

Given the encouraging progress of construction of our first plant and the booming market for the company's products, we are confident that the prospects for the company remain bright.

The company will unrelentingly pursue its lowest cost producer strategy through access to abundant supplies of high quality and cheap feedstock, cultivation of an alternative feedstock and access to a low cost operating regime and investment incentives.

The company also desires to expand its capacity quickly to take advantage of the significant market opportunities that are developing for the company's product all over the world. Recently, the company was granted a Licence by the Malaysian government to expand its capacity from 100,000 tpa to 300,000 tpa. This expansion was also accorded the 5 year 100% tax holiday that the first 100,000 tpa project enjoys.

The company already has an off-take contract for up to 250,000 tpa for export of its products into Europe. We are currently discussing off-take contracts with other parties in several other countries to support our expansion plans. Appropriate announcements will be made when these contracts are finalised.

ACKNOWLEDGEMENT

As you can see, your company has made remarkable progress since the IPO. We believe that your company is on target to achieve its corporate and financial objectives. Your company is also putting in place an active feedstock and expansion strategy which is set to enhance the company's shareholders value.

I thank you, our highly valued shareholders, for your unwavering support and decision to invest in us.

To our valued contractors and suppliers, thank you for being our partners in progress.

Last but not least, I would like to express my heartfelt gratitude to my fellow directors for their stewardship and assistance and to members of my executive team and staff at "Mission Control" for their unrelenting support and the huge effort to make this mission all so worthwhile.

May I wish all of you a successful and prosperous year ahead.

THE BOARD



Mr Dario Amara

Non-Executive Chairman

Mr Amara is an engineer with extensive business experience gained over 27 years in the Australian and international markets and across the mining and metals, energy and infrastructure sectors. For the past 16 years, he has occupied senior executive roles with major construction and engineering groups, including three years as the chief executive officer of John Holland Asia based in Kuala Lumpur.

Between September 2001 and March 2005 he led GRD Minproc Limited as CEO and managing director and up to June 2005 he was the chairman of the joint venture, responsible for the implementation of the \$1.3 billion Ravensthorpe Nickel Project.

Dario is also currently a non-executive director of Austal Limited, and chairman of the City of Perth Heritage Appeal. He is also the co-founder and chief executive of Emerson Stewart Limited, a project implementation specialist based in Perth.

He is a Fellow of the Institution of Engineers, Australia.



Tan Sri Razak Ramli

Non-Executive Director

Tan Sri Razak has had an illustrious career in the Malaysian Civil Service having served in various Ministries and Government Agencies including the Public Services Department and Economic Planning Unit and Policy Research Division of the Prime Minister's Department, Ministry of International Trade and Industry (MITI). He served as the Deputy Secretary General (Industry) and Deputy Secretary General (Trade), before he retired from his last position as Secretary General, Ministry of International Trade and Industry in October 2004.

Tan Sri Razak is also currently the chairman of Shangri-La Hotels (Malaysia) Bhd and a director of Lafarge Malayan Cement Bhd, Ann Joo Resources Bhd and Transmile Group Bhd.



Datuk Zain Yusuf

Non-Executive Director

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

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



Mr Nathan Mahalingam

Managing Director

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

Nathan is currently a resident of Perth and has gained extensive project advisory, corporate finance, mergers and acquisitions experience while running his own boutique corporate advisory practice between 2000 and 2004.



Mr Arvind Bansal

Executive Director

Mr Bansal has over 12 years corporate finance and project development experience. He served for 7 years as Director in the Corporate Finance Department of SSKI, one of India's leading stock-broking firms. During his tenure in SSKI, he worked on several large financing transactions across independent private power projects, ports, media, IT and pharmaceutical companies.

Arvind is currently a director of Skyzen Capital Advisors Pvt Ltd, SkyZen Infrabuild Pvt Ltd and Chitvan Consultants Sdn Bhd.



Mr Peter Williams

Finance Director and Company Secretary

Mr Williams is a senior finance professional with over 25 years commercial experience gained both domestically and internationally. He spent over 20 years with BHP. Some of the more recent senior positions that he held in BHP were Global SAP Business Leader, Vice President Finance, BHP Minerals Development, Vice President Finance, BHP World Minerals (based in San Francisco); and Group Manager Financial Planning, BHP Minerals.

He has been a director of numerous BHP subsidiary companies. He has also served as a director of the Big Sky (formerly BHP) Credit Union Ltd from 1993 to 1995 and from 2000 to 2005.

In 2001, Peter became group financial controller of Ticor Limited, and was most recently employed as group financial controller and company secretary of Exoil Limited.

He is a Fellow of CPA Australia.



FINANCIAL REPORT

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006

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CORPORATE GOVERNANCE STATEMENT

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the period 17 November 2005 to 30 June 2006.

Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the Directors' Report.

The names of independent Directors of the company are:

Mr Dario Amara

Tan Sri Abdul Razak Bin Ramli

Datuk Mohamed Zain Bin Mohamed Yusuf

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds:

- less than 10% of company shares are held by the director and any entity or individual directly or indirectly associated with the director;
- no sales are made to or purchases made from any entity or individual directly or indirectly associated with the director; and
- none of the directors income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

Independent directors have the right to seek independent professional advice in the furtherance of their duties as directors at the company's expense. Written approval must be obtained from the chairman prior to incurring any expense on behalf of the company.

The names of the members of the Nomination and Remuneration Committee and their attendance at meetings of the committee are detailed in the Directors' Report.

Trading Policy

The company's policy regarding directors and employees trading in its securities is set by the Board of Directors. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

Audit and Risk Management Committee

The names and qualifications of those appointed to the Audit and Risk Management Committee and their attendance at meetings of the committee are included in the Directors' Report.

Performance Evaluation

An annual performance evaluation of the Board and all Board members will be conducted by the Board and facilitated by an independent consultant. The company was only listed on 4 May 2006 so this review will be undertaken at an appropriate time next year.

Remuneration Policies

The remuneration policy, which sets the terms and conditions for the chief executive officer and other senior executives, was developed by the Nomination and Remuneration Committee after seeking professional advice from independent consultants and was approved by the board. All executives receive a base salary, superannuation, fringe benefits, options and performance incentives. The Nomination and Remuneration Committee will review executive packages annually by reference to company performance, executive performance, comparable information from industry sectors and other listed companies and independent advice.

The amount of remuneration for all directors including the three highest paid executives, including all monetary and non-monetary components, are detailed in Note 5 to the financial report. All remuneration paid to executives is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology.

The Board expects that the remuneration structure implemented will result in the company being able to attract and retain the best executives to run the economic entity. It will also provide executives with the necessary incentives to work to grow long-term shareholder value.

The payment of options and other incentive payments will be reviewed by the Nomination and Remuneration Committee annually as part of the review of executive remuneration and a recommendation will be put to the Board for approval. All options and incentives must be linked to predetermined performance criteria. The Board can exercise its discretion in relation to approving incentives and options and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria.

Nomination and Remuneration Committee

The names of the members of the Nomination and Remuneration Committee and their attendance at meetings of the committee are detailed in the Directors' Report.

There are no schemes for retirement benefits other than statutory superannuation for non-executive directors.

Other Information

Further information relating to the company's corporate governance practices and policies has been made publicly available on the company's web site at www.missionbiofuels.com.au.



Your directors present their report on the company and its controlled entities for the period from 17 November 2005 to 30 June 2006.

Directors

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

Mr Dario Amara	(appointed 31 March 2006)
Tan Sri Abdul Razak Bin Ramli	(appointed 24 January 2006)
Datuk Mohamed Zain	
Bin Mohamed Yusuf	(appointed 24 January 2006)
Mr Nathan Mahalingam	
Mr Arvind Bansal	(appointed 24 January 2006)
Mr Peter Williams	(appointed 22 February 2006)

Directors have been in office since 17 November 2005 to the date of this report unless otherwise stated.

Company Secretary

The following person held the position of company secretary at the end of the financial year:

Mr Peter John Williams — Bachelor of Business, FCPA.
Mr Williams has worked for Mission Biofuels Limited since 13 February 2006 as Finance Director. Mr Williams was appointed company secretary on 22 February 2006.

Principal Activities

The principal activities of the economic entity during the financial year were:

- Capital raising of \$42.6 million and the commencement of construction of the Biodiesel plant in Malaysia.

The following significant changes in the nature of the principal activities occurred during the financial year:

- No significant changes

There were no other significant changes in the nature of the economic entity's principal activities during the financial year.

Operating Results

The consolidated loss of the economic entity after providing for income tax amounted to \$613,049.

Dividends Paid or Recommended

No dividends have been paid or declared for payment.

Financial Position

The directors believe that the economic entity is in a strong financial position to ensure that it is able to meet all its commitments in relation to the construction of the biodiesel plant.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

- (i) On 13 December 2005 the company issued 46,400,000 ordinary shares to the shareholders of Mission Biotechnologies Sdn Bhd to acquire 100% of the company.
- (ii) During January and February 2006 a further 8,800,000 ordinary shares were issued to the founding shareholders.
- (iii) On 17 January 2006 the company issued 4,000,000 ordinary shares at \$0.50 each, to raise seed capital.
- (iv) By the end of February 2006, 11,200,000 ordinary shares that were issued to the founding shareholders had been converted to performance shares.
- (v) On 1 May 2006 the company issued 16,000,000 ordinary shares at \$0.85 when Tiger Global Private Investment Partners III, LP converted their convertible notes.
- (vi) On 1 May 2006 the Company issued 27,000,000 ordinary shares at \$1.00 pursuant to its Prospectus.

Future Developments, Prospects and Business Strategies

Plans for a second plant at Kuantan are well underway which will enable our initial capacity to triple to 300,000 tonnes per annum of biodiesel. The company's ability to achieve this trebling of capacity is supported by the following:

- Malaysian government approving an additional 200,000 tpa license
- 5 year 100% tax holiday for new project also approved
- Pre-engineering underway
- Additional land for expansion, adjacent to existing site, has been leased commencing 1 September, 2006 at an annual cost of \$80,000
- Various financing options are currently being considered

The directors believe that it is appropriate to pursue this strategy for the following reasons:

- Market Conditions – Demand for Biodiesel is forecast to exceed supply
- Plant – The technology is proven and easy to replicate
- Off-take Capacity - Godiver Contract caters for the sale of up to 250,000 tpa of Biodiesel
- New Off-Take Possibilities - Additional new off-take partners being explored
- Palm Oil – There is an abundant supply of cheap Palm Oil throughout Malaysia
- Kuantan Site – Land can accommodate 500,000 tpa capacity

The expansion will strengthen the economic entity's position in the biodiesel market in south-east Asia and help to make it the No.1 Biodiesel producer in the region.

Environmental Issues

The economic entity is not aware of any environmental issue.

DIRECTORS' REPORT (CONTINUED)

Information on Directors

Mr Dario Amara

Chairman (Non-executive)

Qualifications	Bachelor of Engineering with Distinction (Curtin University of Technology). Fellow of the Institution of Engineers Australia.
Experience	Appointed Chairman 31 March 2006. Board member since 31 March 2006.
Interest in Shares and Options	100,000 ordinary shares in Mission Biofuels Limited held indirectly (50,000 to Amara family trust account and 50,000 to Amara Superannuation Fund account) 1,000,000 options to acquire a further 1,000,000 ordinary shares.
Special Responsibilities	Mr Amara is a member of the Audit and Risk Management Committee and Chairman of the Nomination and Remuneration Committee.
Directorships held in other listed entities	Current director of Austal Limited (since 16 August 2005), former Managing Director and CEO of GRD Minproc Limited (from August 2001 to June 2005).

Tan Sri Abdul Razak Bin Ramli

Deputy Chairman (Non-executive)

Qualifications	Bachelor of Arts (Hons) (University of Tasmania), Diplome Gestion Publique, (Institut International d'Administration Publique).
Experience	Director since 24 January 2006. Appointed deputy chairman on 31 March 2006.
Interest in Shares and Options	750,000 options to acquire 750,000 ordinary shares in Mission Biofuels Limited.
Special Responsibilities	Tan Sri Razak is the chairman of the Audit and Risk Management Committee and a member of the Nomination and Remuneration Committee.
Directorships held in other listed entities	Current chairman of Shangri-La Hotels (Malaysia) Berhad (since May 2005), director of Ann Joo Resources Berhad (since November 2004), director of Lafarge Malayan Cement Berhad (since November 2004) and director of Transmile Group Berhad (since May 2005).

Datuk Mohamed Zain Bin Mohamed Yusuf

Director (Non-executive)

Qualifications	Bachelor of Economics (Hons), (University of Western Australia).
Experience	Board member since 24 January 2006.
Interest in Shares and Options	500,000 options to acquire 500,000 ordinary shares in Mission Biofuels Limited.
Special Responsibilities	Datuk Zain Yusuf is a member of both the Audit and Risk Management Committee and the Nomination and Remuneration Committee.
Directorships held in other listed entities	Director of Faber Group Bhd (since October 2001), PJ Bumi Bhd (since May 2003) and chairman of Melacca Securities Sdn Bhd (since November 2000).



Mr Nathan Mahalingam	Managing Director (Executive)
Qualifications	Bachelor of Economics (Hons) (University of Malaya) and MBA (Murdoch University).
Experience	Board member since incorporation of the Company (17 November 2005).
Interest in Shares and Options	24,640,000 ordinary shares and 7,840,000 performance shares in Mission Biofuels Limited held indirectly through Mission Equities Sdn Bhd (holds 34% of the ordinary shares of the company).
Special Responsibilities	Managing Director of the company.
Mr Arvind Bansal	Director (Executive)
Qualifications	Bachelor of Technology (Civil Engineering) (Indian Institute of Technology) and Post Graduate Diploma in Management (Indian Institute of Management).
Experience	Board member since 24 January 2006.
Interest in Shares and Options	4,400,000 ordinary shares and 1,400,000 performance shares in Mission Biofuels Limited held indirectly through Chitvan Consultants Sdn Bhd (Director and has a controlling interest).
Mr Peter Williams	Finance Director (Executive)
Qualifications	Bachelor of Business (Royal Melbourne Institute of Technology). Fellow of CPA Australia.
Experience	Board member since 22 February 2006.
Interest in Shares and Options	500,000 options to acquire 500,000 ordinary shares.
Special Responsibilities	Mr Williams is the company secretary.

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of Mission Biofuels Limited and for the executives receiving the highest remuneration.

Remuneration policy

The remuneration policy of Mission Biofuels Limited has been designed to attract, maintain and motivate directors and senior management with the aim of enhancing the performance and long-term growth of the Company and clearly sets out the relationship between the individual's performance and remuneration.

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

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

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Nomination and Remuneration Committee and approved by the Board after seeking professional advice (when appropriate) from independent external consultants.
- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The Nomination and Remuneration Committee reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors.

DIRECTORS' REPORT (CONTINUED)

The directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

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

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

Director and executive remuneration

Details of remuneration for the period 17 November 2005 to 30 June 2006

The remuneration for each director and each of the 3 executive officers of the economic entity receiving the highest remuneration during the year was as follows:

	Salary, Fees and Commissions \$	Superannuation Contribution \$	Cash Bonus \$	Non-cash Benefits \$	Options \$	Total \$	Performance related %
Directors							
Mr Dario Amara	16,667	1,500	-	1,138	244,083	263,388	-
Tan Sri Razak Ramli	12,500	-	-	1,138	183,062	196,700	-
Datuk Zain Yusuf	8,333	-	-	1,138	122,041	131,512	-
Mr Nathan Mahalingam	84,347	7,591	-	1,138	-	93,076	-
Mr Arvind Bansal	-	-	-	1,138	-	1,138	-
Mr Peter Williams	72,116	6,434	-	1,138	47,072	126,760	-
	193,963	15,525	-	6,828	596,258	812,574	-

Performance income as a proportion of total remuneration

Executive directors and executives are not paid any portion of their remuneration on a performance basis.

The Nomination and Remuneration committee may review this situation in the future.

Options issued as part of remuneration for the period 17 November 2005 to 30 June 2006

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Mission Biofuels Limited and its subsidiaries to increase goal congruence between executives, directors and shareholders.

	Granted No.	Options Granted as Part of Remuneration \$	Total Remuneration Represented by Options %	Options Exercised \$	Options Lapsed \$	Total \$
Directors						
Mr Dario Amara	1,000,000	244,083	93	-	-	244,083
Tan Sri Razak Ramli	750,000	183,062	93	-	-	183,062
Datuk Zain Yusuf	500,000	122,041	93	-	-	122,041
Mr Nathan Mahalingam	-	-	-	-	-	-
Mr Arvind Bansal	-	-	-	-	-	-
Mr Peter Williams	500,000	47,072	37	-	-	47,072
	2,750,000	596,258	72	-	-	596,258



Employment contracts of directors and senior executives

The employment conditions of the managing director, Mr Nathan Mahalingam and the Finance Director and Company Secretary, Mr Peter Williams, are formalised in contracts of employment. Mr Mahalingam and Mr Williams are employed under employment agreements that the Directors consider to be on reasonable and commercial terms.

The employment agreements contain the following terms and conditions:

- (i) standard leave entitlements;
- (ii) fixed terms of 3 years, with Mission Biofuels able to terminate the employment prior to the expiration of the maximum term by giving 3 months notice and the employee able to do the same by giving 2 months notice, except that Mission Biofuels may terminate the employment of Mr Mahalingam by giving 2 months notice;
- (iii) rights of summary dismissal are preserved;
- (iv) total remuneration (including salary and superannuation contributions) of between \$180,000 and \$240,000 each per annum subject to yearly review, but an increase is not guaranteed;
- (v) no provision for bonus payments;
- (vi) no probationary periods;
- (vii) no provision for payment in the case of redundancy; and
- (viii) cascading post employment restraints.

Meetings of Directors

During the financial year, 6 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Committee Meetings			
	A	B	Audit & Risk Management Committee		Nomination & Remuneration Committee	
Mr Dario Amara	5	5	1	1	-	-
Tan Sri Abdul Razak Bin Ramli	5	3	1	1	-	-
Datuk Mohamed Zain Bin Mohamed Yusuf	5	3	1	1	-	-
Mr Nathan Mahalingam	5	3	-	-	-	-
Mr Arvind Bansal	5	3	-	-	-	-
Mr Peter Williams	5	5	-	-	-	-

A Number eligible to attend

B Number attended

The company has paid premiums to insure each of the following directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The amount of the premium was \$1,138 for each director.

Mr Dario Amara
Tan Sri Abdul Razak Bin Ramli
Datuk Mohamed Zain Bin Mohamed Yusuf
Mr Nathan Mahalingam
Mr Arvind Bansal
Mr Peter Williams

DIRECTORS' REPORT (CONTINUED)

Options

At the date of this report, the unissued ordinary shares of Mission Biofuels Limited under options are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
24/1/2006	31/1/2009	\$1.20	1,250,000
13/2/2006	28/2/2009	\$1.20	500,000
31/3/2006	31/1/2009	\$1.20	1,000,000
4/5/2006	31/1/2009	\$1.20	3,000,000
			<hr/> <hr/> 5,750,000

During the period ended 30 June 2006, no ordinary shares of Mission Biofuels Limited were issued on the exercise of options granted under the Mission Biofuels Limited Option Plans. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Proceedings on Behalf of Company

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.

The company was not a party to any such proceedings during the year.

Non-audit Services

During the year no fees were paid to the auditor of the company for non-audit services.

Auditor's Independence Declaration

The lead auditor's independence declaration for the period ended 30 June 2006 has been received and can be found on page 21 of the Directors' Report.

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



Nathan Mahalingam

Managing Director

Dated 12 September 2006

AUDITOR'S INDEPENDENCE DECLARATION



Grant Thornton 

Grant Thornton Western Australian Partnership
ABN 21 965 022 882
Chartered Accountants, Business Advisers and Consultants

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Mission Biofuels Ltd and its controlled entities for the period ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

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

GRANT THORNTON WESTERN AUSTRALIAN PARTNERSHIP

A handwritten signature in black ink, appearing to read 'Greg Leguier'.

GREG LEGUIER
Partner

Dated 12 September 2006

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INCOME STATEMENT

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006

	Note	Economic Entity 2006 \$	Parent Entity 2006 \$
Revenue	2	424,460	407,903
Other income	2	-	190,000
Total revenue		424,460	597,903
Employee benefits expense		(1,042,371)	(978,376)
Net foreign exchange gain		811,898	520,238
Travel expenses		(108,755)	(59,408)
Shareholder expenses		(76,054)	(68,784)
Consultants expenses		(62,182)	(62,182)
Rental expenses		(43,958)	(15,134)
Depreciation and amortisation expenses		(2,793)	(1,929)
Other expenses from ordinary activities		(177,307)	(57,568)
Finance costs	3	(109,044)	(45,713)
Profit/(loss) before income tax		(386,106)	(170,953)
Income tax (expense)/benefit	4	(226,943)	(222,918)
Net profit/(loss) attributable to members of the parent entity		(613,049)	(393,871)
Overall Operations			
Basic earnings/(loss) per share (cents)	7	(1.48)	
Diluted earnings/(loss) per share (cents)	7	(1.48)	
Continuing Operations			
Basic earnings/(loss) per share (cents)	7	(1.48)	
Diluted earnings/(loss) per share (cents)	7	(1.48)	
Dividends per share (cents)		-	

The accompanying notes form part of these financial statements.

BALANCE SHEET

AS AT 30 JUNE 2006



	Note	Economic Entity 2006 \$	Parent Entity 2006 \$
CURRENT ASSETS			
Cash and cash equivalents	8	35,046,564	15,900,141
Trade and other receivables	9	284,268	466,496
Other assets	13	42,939	42,939
Total current assets		35,373,771	16,409,576
NON-CURRENT ASSETS			
Other financial assets	10	-	24,646,138
Property, plant and equipment	12	6,686,966	595,113
Deferred tax assets	15b	319,015	318,390
Other assets	13	7,773	-
Total non-current assets		7,013,754	25,559,641
TOTAL ASSETS		42,387,525	41,969,217
CURRENT LIABILITIES			
Trade and other payables	14	634,881	119,356
Total current liabilities		634,881	119,356
NON-CURRENT LIABILITIES			
Deferred tax liabilities	15a	176,733	171,995
Total non-current liabilities		176,733	171,995
TOTAL LIABILITIES		811,614	291,351
NET ASSETS		41,575,911	41,677,866
EQUITY			
Issued capital	16	40,847,767	40,743,204
Reserves		1,341,193	1,328,533
Retained earnings (Accumulated losses)		(613,049)	(393,871)
Total Equity		41,575,911	41,677,866

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006

	Share Capital Ordinary	Retained Earnings	Share Option Reserve	Performance Share Reserve	Foreign Currency Translation Reserve	Total
Economic Entity						
Balance at 17 November 2005	-	-	-	-	-	-
Profit/(loss) attributable to members of parent entity		(613,049)				(613,049)
Pre-combination equity of Mission Biofuels Ltd/ Mission Biotechnologies Sdn Bhd	577,067					577,067
Issue of Ordinary Shares to Chitvan Consultants Sdn Bhd and Mr Parantaman Ramasamy	541,000					541,000
Issue of Ordinary Shares as pre-IPO seed capital	2,000,000					2,000,000
Costs of pre-IPO seed capital issue	(158,961)					(158,961)
Issue of performance shares to Chitvan Consultants Sdn Bhd and Mr Parantaman Ramasamy	(22)			22		-
Issue of 5,250,000 January 2009 options	(610,209)		1,281,439			671,230
Issue of 500,000 February 2009 options			47,072			47,072
Issue and conversion of Convertible Notes (net of costs)	13,463,152					13,463,152
Issue of Ordinary Shares pursuant to the Prospectus	27,000,000					27,000,000
Cash costs of the issue of shares pursuant to the Prospectus	(2,333,573)					(2,333,573)
Deferred tax on IPO and seed capital raising costs	369,313					369,313
Adjustments from translations of foreign controlled entities					12,660	12,660
	40,847,767	(613,049)	1,328,511	22	12,660	41,575,911
Parent Entity						
Balance at 17 November 2005	-	-	-	-	-	-
Profit/(loss) attributable to members of parent entity		(393,871)				(393,871)
Pre-combination equity of Mission Biofuels Ltd/ Mission Biotechnologies Sdn Bhd	472,504					472,504
Issue of Ordinary Shares to Chitvan Consultants Sdn Bhd and Mr Parantaman Ramasamy	541,000					541,000
Issue of Ordinary Shares as pre-IPO seed capital	2,000,000					2,000,000
Costs of pre-IPO seed capital issue	(158,961)					(158,961)
Issue of performance shares to Chitvan Consultants Sdn Bhd and Mr Parantaman Ramasamy	(22)			22		-
Issue of 5,250,000 January 2009 options	(610,209)		1,281,439			671,230
Issue of 500,000 February 2009 options			47,072			47,072
Issue and conversion of Convertible Notes (net of costs)	13,463,152					13,463,152
Issue of Ordinary Shares pursuant to the Prospectus	27,000,000					27,000,000
Cash costs of the issue of shares pursuant to the Prospectus	(2,333,573)					(2,333,573)
Deferred tax on IPO and seed capital raising costs	369,313					369,313
	40,743,204	(393,871)	1,328,511	22	-	41,677,866

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006



	Note	Economic Entity 2006 \$	Parent Entity 2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(719,897)	(519,827)
Interest received		359,797	359,797
Net cash used in operating activities	21	(360,100)	(160,030)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(5,197,324)	(56,042)
Payments for investments in subsidiary		-	(24,173,634)
Loans to related parties		-	(201,009)
Net cash used in investing activities		(5,197,324)	(24,430,685)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares – net of costs		40,096,850	39,970,618
Net cash provided by financing activities		40,096,850	39,970,618
NET INCREASE (DECREASE) IN CASH HELD			
Cash at beginning of the financial year		-	-
Effects of exchange rate fluctuations of cash held in foreign currencies		507,138	520,238
CASH AT END OF FINANCIAL YEAR	8	35,046,564	15,900,141

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006

1. Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the economic entity of Mission Biofuels Limited and controlled entities, and Mission Biofuels Limited as an individual parent entity. Mission Biofuels Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Mission Biofuels Limited and controlled entities, and Mission Biofuels Limited an individual parent entity, complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS), in their entirety. Compliance with AIFRS ensures that the financial report also complies with International Financial Reporting Standards (IFRS) in their entirety.

Mission Biofuels Limited was incorporated on 17 November 2005; accordingly no comparative data has been disclosed.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Mission Biofuels Limited and controlled entities, and Mission Biofuels 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.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

Except where stated, these accounting policies have been consistently applied by each entity in the consolidated entity.

The financial statements have been prepared on a going concern basis which assumes continuity of normal business activities with the realisation of assets and settlement of liabilities in the ordinary course of business.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

a. Principles of Consolidation

The consolidated financial statements comprise the financial statements of Mission Biofuels Limited and its subsidiary, as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements', Mission Biotechnologies Sdn Bhd (MBSB). On 13 December 2005, Mission Biofuels Limited acquired all of the issued capital of MBSB. In accordance with the requirements of AASB 3 'Business Combinations', MBSB was identified as the acquirer in relation to the combination. Accordingly, the combination has been accounted for as a reverse acquisition. This has resulted in the consolidated balance sheet reflecting the historical assets, liabilities and equity of MBSB, and the cost of the combination being recognised at the fair value of the net assets of Mission Biofuels Limited at the date of acquisition. The application of AASB 3 'Business Combinations' does not change the status of Mission Biofuels as the legal parent entity of the Group.

A list of controlled entities is contained in Note 11 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

b. Income Tax

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

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

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

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



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

c. Plant and Equipment

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

Plant and equipment

Plant and equipment are measured on the cost basis.

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 asset's 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 economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in 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.

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 economic 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

Class of Fixed Asset	Depreciation Rate
Leasehold improvements	10%
Plant and equipment	5-20%
Leased plant and equipment	10%

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

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

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

d. Leases

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006 (CONTINUED)

e. Financial Instruments

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.

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.

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 group 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.

f. Impairment of Assets

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

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

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

g. Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction.

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

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

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

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

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



h. Employee Benefits

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

Equity-settled compensation

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

i. Payables

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

j. Provisions

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

k. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 10 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

l. Revenue

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

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

Dividend revenue is recognised when the right to receive a dividend has been established.

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).

m. 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.

n. 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.

Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates — Share Based Payments

The group issued 5,750,000 options during the reporting period and the value that has been attributed to them incorporates a number of key estimates. The details of the estimates that have been used can be found in Note 22 Share-based Payments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006 (CONTINUED)

	Note	Economic Entity 2006 \$	Parent Entity 2006 \$
2. Revenue			
Operating activities			
- interest received	2a	424,460	407,903
Total revenue		424,460	407,903
Non-operating activities			
- Management fees from controlled entities		-	190,000
Other income		-	190,000
a. Interest received from:			
- other persons		424,460	407,903
Total interest revenue		424,460	407,903
3. Loss for the Year			
Expenses			
Cost of sales		-	-
Finance costs:			
- external		109,044	45,713
Total finance costs		109,044	45,713
Options expense		718,302	718,302
Foreign currency translation losses (gains) – net		(811,898)	(520,238)
Rental expense on operating leases			
- minimum lease payments		35,725	15,134
4. Income Tax Expense			
a. The components of tax expense comprise:			
Current tax		-	-
Deferred tax	15	226,943	222,918
		226,943	222,918
b. The prima facie tax on the loss from ordinary activities before income tax is reconciled to the income tax as follows:			
Prima facie tax receivable on loss from ordinary activities before income tax at 30%			
- economic entity		(115,832)	-
- parent entity		-	(51,286)
		(115,832)	(51,286)
Add:			
Tax effect of:			
- overseas tax rate differential		4,303	-
- other non-allowable items		64,268	-
- non-deductible entertainment		348	348
- non-deductible overheads		58,365	58,365
- share options expensed during year		215,491	215,491
Income tax attributable to entity		226,943	222,918



5. Key Management Personnel Compensation

a. Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

Key Management Person	Position
Mr Dario Amara	Chairman – Non-executive
Tan Sri Razak Ramli	Director - Non-executive
Datuk Zain Yusuf	Director - Non-executive
Mr Nathan Mahalingam	Managing Director – Executive
Mr Arvind Bansal	Director – Executive
Mr Peter Williams	Finance Director & Company Secretary

b. Compensation Practices

The board's policy for determining the nature and amount of compensation of key management for the group is as follows:

The remuneration policy of Mission Biofuels Limited has been designed to attract, maintain and motivate directors and senior management with the aim of enhancing the performance and long-term growth of the Company; and clearly sets out the relationship between the individual's performance and remuneration. The board of Mission Biofuels Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

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

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Nomination and Remuneration Committee and approved by the Board after seeking professional advice (when appropriate) from independent external consultants.
- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The Nomination and Remuneration Committee reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. All remuneration paid to the directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

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

The remuneration committee determines the proportion of fixed and variable compensation for each key management personnel. Refer Note 5c.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006 (CONTINUED)

c. Key Management Personnel Compensation

2006 Key Management Person	Short-term Benefits					Other Long-term benefits	Share-based Payment		Total	Performance Related
	Cash, Salary & Commission	Cash profit share	Non-cash benefit	Other	Post-employment benefits Superannuation		Shares	Options		
	\$	\$	\$	\$	\$					
Mr Dario Amara	16,667	-	1,138	-	1,500	-	-	244,083	263,388	-
Tan Sri Razak Ramli	12,500	-	1,138	-	-	-	-	183,062	196,700	-
Datuk Zain Yusuf	8,333	-	1,138	-	-	-	-	122,041	131,512	-
Mr Nathan Mahalingam	84,347	-	1,138	-	7,591	-	-	-	93,076	-
Mr Arvind Bansal	-	-	1,138	-	-	-	-	-	1,138	-
Mr Peter Williams	72,116	-	1,138	-	6,434	-	-	47,072	126,760	-
	193,963	-	6,828	-	15,525	-	-	596,258	812,574	-

d. Compensation options

Options Granted As Compensation	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date	Terms & Conditions for Each Grant		
					Exercise Price	First Exercise Date	Last Exercise Date
Mr Dario Amara	1,000,000	1,000,000	31-Mar-06	0.2441	1.20	04-May-06	31-Jan-09
Tan Sri Razak Ramli	750,000	750,000	24-Jan-06	0.2441	1.20	04-May-06	31-Jan-09
Datuk Zain Yusuf	500,000	500,000	24-Jan-06	0.2441	1.20	04-May-06	31-Jan-09
Mr Nathan Mahalingam	-	-	-	-	-	-	-
Mr Arvind Bansal	-	-	-	-	-	-	-
Mr Peter Williams	-	500,000	13-Feb-06	0.2490	1.20	13-Feb-07	28-Feb-09
	2,250,000	2,750,000					

All January 2009 options vested when the company was admitted to the official list of ASX and expire on 31 January 2009. The February 2009 options (issued to Mr Williams) vest 12 months after his commencement date with the Company i.e. 13 February 2007.

The service and performance criteria set to determine compensation are included per Note 5b and Note 22.

All options were granted for nil consideration.

e. Shares Issued on Exercise of Compensation Options

No options were exercised during the year that was granted as compensation in prior periods.

f. Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Balance	Granted as	Options	Net Change	Balance	Total Vested	Total	Total
	17/11/2005	Compensation	Exercised	Other	30/6/2006	30/6/2006	Exercisable 30/6/2006	Unexercisable 30/6/2006
Mr Dario Amara	-	1,000,000	-	-	1,000,000	1,000,000	1,000,000	-
Tan Sri Razak Ramli	-	750,000	-	-	750,000	750,000	750,000	-
Datuk Zain Yusuf	-	500,000	-	-	500,000	500,000	500,000	-
Mr Nathan Mahalingam	-	-	-	-	-	-	-	-
Mr Arvind Bansal	-	-	-	-	-	-	-	-
Mr Peter Williams	-	500,000	-	-	500,000	-	-	500,000
TOTAL	-	2,750,000	-	-	2,750,000	2,250,000	2,250,000	500,000



g. Shareholdings

Number of Shares held by Key Management Personnel

	Balance 17/11/2005	Received as Compensation	Options Exercised	Net Change Other	Balance 30/6/2006
Mr Dario Amara ¹	-	-	-	100,000	100,000
Tan Sri Razak Ramli	-	-	-	-	-
Datuk Zain Yusuf	-	-	-	-	-
Mr Nathan Mahalingam ²	-	-	-	24,640,000	24,640,000
Mr Arvind Bansal ³	-	-	-	4,400,000	4,400,000
Mr Peter Williams	-	-	-	-	-
	-	-	-	29,140,000	29,140,000

¹ Held indirectly through the family trust and superannuation account.

² Held indirectly through Mission Equities Sdn Bhd, a company that Mr Mahalingam has a 34% interest in.

³ Held indirectly through Chitvan Consultants Sdn Bhd in which Mr Bansal is a director and has a controlling interest.

6. Auditors' Remuneration

	Economic Entity 2006 \$	Parent Entity 2006 \$
Remuneration of the auditor of the parent entity for:		
- auditing or reviewing the financial report	20,465	18,000
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing the financial report of subsidiaries	3,607	-

7. Earnings per Share

	Economic Entity 2006 \$
a. Reconciliation of earnings to profit or loss	
Profit/(Loss)	(613,049)
Earnings used in calculation of both ordinary and dilutive EPS	(613,049)
b. Reconciliation of earnings to profit or loss from continuing operations	
Profit/(Loss)	(613,049)
Earnings used in calculation of both ordinary and dilutive EPS from continuing operations	(613,049)
c. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	41,461,721
Weighted average number of options outstanding	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	41,461,721

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006 (CONTINUED)

8. Cash and Cash Equivalents

	Economic Entity 2006 \$	Parent Entity 2006 \$
Cash at bank and in hand	4,683,410	4,443,180
Short-term bank deposits	30,363,154	11,456,961
	<hr/>	<hr/>
	35,046,564	15,900,141

The effective interest rate on short-term bank deposits was 4.0% these deposits have an average maturity of 100 days.

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	35,046,564	15,900,141
	<hr/>	<hr/>
	35,046,564	15,900,141

9. Trade and Other Receivables

Trade receivables	5,092	5,092
	<hr/>	<hr/>
	5,092	5,092
Other receivables	279,176	260,395
Amounts receivable from:		
- wholly-owned subsidiaries	-	201,009
	<hr/>	<hr/>
	284,268	466,496

10. Other Financial Assets

Available-for-sale financial assets	-	24,646,138
Available-for-sale Financial Assets Comprise		
Unlisted investments, at cost		
- shares in controlled entities	-	24,646,138
	<hr/>	<hr/>
	-	24,646,138

Available-for-sale financial assets comprise investments in the ordinary issued capital of Mission Biotechnologies Sdn Bhd. There are no fixed returns or fixed maturity date attached to these investments.

The fair value of the unlisted available-for-sale financial asset cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. However, as the investment transaction occurred during the period and there are no indicators of impairment, the carrying value is not considered to be materially different to fair value.



11. Controlled Entities

a. Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)* 2006
<i>Parent Entity:</i>		
Mission Biofuels Limited	Australia	
<i>Subsidiaries of Mission Biofuels Limited:</i>		
Mission Biotechnologies Sdn Bhd	Malaysia	100

* Percentage of voting power is in proportion to ownership

b. Acquisition of Controlled Entities

On 13 December 2005 the parent entity acquired 100% of Mission Biotechnologies Sdn Bhd (MBSB).

In accordance with the requirements of AASB 3 Business Combinations, MBSB was identified as the acquirer in relation to the combination. Accordingly, the combination has been accounted for as a reverse acquisition. This has resulted in the consolidated balance sheet reflecting the historical assets, liabilities and equity of MBSB, and the cost of the combination being recognised at the fair value of the net assets of the Mission Biofuels Limited at the date of acquisition.

12. Property, Plant and Equipment

	Economic Entity 2006 \$	Parent Entity 2006 \$
OFFICE EQUIPMENT		
- at cost	39,567	36,482
- accumulated depreciation	(633)	(620)
	<hr/> 38,934	<hr/> 35,862
COMPUTER EQUIPMENT		
- at cost	34,125	19,560
- accumulated depreciation	(2,182)	(1,309)
	<hr/> 31,943	<hr/> 18,251
LEASEHOLD IMPROVEMENTS		
- at capitalised cost	32,962	-
- accumulated depreciation	-	-
	<hr/> 32,962	<hr/> -
BIODIESEL PLANT		
- at cost	6,583,127	541,000
- accumulated depreciation	-	-
	<hr/> 6,583,127	<hr/> 541,000
Total Property, Plant and Equipment	<hr/> 6,686,966	<hr/> 595,113

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006 (CONTINUED)

	Economic Entity 2006 \$	Parent Entity 2006 \$
Movements in Carrying Amounts		
Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial period		
Office equipment		
Carrying amount at beginning of period	-	-
Additions	39,567	36,482
Depreciation	(633)	(620)
Carrying amount at end of period	38,934	35,862
Computer equipment		
Carrying amount at beginning of period	-	-
Additions	34,125	19,560
Depreciation	(2,182)	(1,309)
Carrying amount at end of period	31,943	18,251
Leasehold improvements		
Carrying amount at beginning of period	-	-
Additions	32,962	-
Carrying amount at end of period	32,962	-
Biodiesel Plant		
Carrying amount at beginning of period	-	-
Additions	6,583,127	541,000
Carrying amount at end of period	6,583,127	541,000
13. Other Assets		
CURRENT		
Prepayments	34,939	34,939
Security Deposits	8,000	8,000
	42,939	42,939
NON-CURRENT		
Security Deposits	7,773	-
14. Trade and Other Payables		
CURRENT		
Unsecured liabilities		
Trade payables	33,232	24,620
Sundry payables and accrued expenses	601,649	94,736
	634,881	119,356



Economic Entity
2006
\$

Parent Entity
2006
\$

15. Tax

a. Liabilities

CURRENT

Income Tax

-

-

NON-CURRENT

Deferred tax liability comprises:

Unrealised FX gains

157,563

157,563

Other

19,170

14,432

Total

176,733

171,995

b. Assets

Deferred tax assets comprise:

Provisions

10,102

9,477

Transaction costs on equity issue

369,313

369,313

Other

(60,400)

(60,400)

319,015

318,390

c. Reconciliations

i. Gross Movements

The overall movement in the deferred tax account is as follows:

Opening balance

-

-

FX translation adjustments

(88)

-

(Charge)/credit to income statement

(226,943)

(222,918)

Charge to equity

369,313

369,313

Closing balance

142,282

146,395

ii. Deferred Tax Liability

The movement in deferred tax liability for each temporary difference during the period is as follows:

Tax allowances relating to unrealised FX gains:

Opening balance

-

-

Charged to the income statement

157,563

157,563

Closing balance

157,563

157,563

Tax allowances relating to accruals:

Opening balance

-

-

FX translation adjustments

102

-

Charged to the income statement

19,068

14,432

Closing balance

19,170

14,432

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006 (CONTINUED)

	Economic Entity 2006 \$	Parent Entity 2006 \$
iii. Deferred tax assets		
The movement in deferred tax assets for each temporary difference during the period is as follows:		
<i>Provisions:</i>		
Opening balance	-	-
FX translation adjustments	14	-
(Credited)/Charged to the income statement	10,088	9,477
Closing balance	10,102	9,477
<i>Transactions costs on equity issue:</i>		
Opening balance	-	-
(Credited)/Charged to the income statement	369,313	369,313
Closing balance	369,313	369,313
<i>Other:</i>		
Opening balance	-	-
(Credited)/Charged to the income statement	(60,400)	(60,400)
Closing balance	(60,400)	(60,400)

16. Issued Capital

91,000,000 fully paid ordinary shares	40,847,767	40,743,204
14,000,000 fully paid performance shares	-	-

The Company has no maximum authorised share capital.

	Economic Entity 2006 Number	Parent Entity 2006 Number
a. Ordinary shares		
At the beginning of reporting period	-	-
Shares issued during the year		
- 13 December 2005	46,400,000	46,400,000
- 16 January 2006	6,400,000	6,400,000
- 17 January 2006	4,000,000	4,000,000
- 23 February 2006	2,400,000	2,400,000
- 1 May 2006	43,000,000	43,000,000
Shares converted to performance shares		
- 16 January 2006	(10,400,000)	(10,400,000)
- 23 February 2006	(800,000)	(800,000)
At reporting date	91,000,000	91,000,000

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

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



	Economic Entity 2006 Number	Parent Entity 2006 Number
b. Performance Shares		
At the beginning of the reporting period	-	-
Shares issued during the year		
- 16 January 2006	2,600,000	2,600,000
- 23 February 2006	200,000	200,000
Shares converted from ordinary shares		
- 16 January 2006	10,400,000	10,400,000
- 23 February 2006	800,000	800,000
At reporting date	14,000,000	14,000,000

The performance shares are not transferable, are non-voting and are not eligible to participate in dividend distributions, repayment of capital and surplus assets and are not to be quoted.

The performance shares will automatically convert to Ordinary Shares as follows:

- If the Adjusted EBITDA for Fiscal Year 2008 is equal to or greater than the Adjusted EBITDA Target, into 1 ordinary share.
- If the Adjusted EBITDA for Fiscal Year 2008 is less than the Adjusted EBITDA Target, into 1/1000th of an ordinary share.

c. Options

- i. For information relating to the Mission Biofuels Limited option plans, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 22 Share-based Payments.
- ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 22 Share-based Payments.

17. Reserves

a. Performance share

Chitvan Consultants Sdn Bhd and Mr Parantaman Ramasamy were granted both Ordinary Shares and Performance Shares as consideration for services rendered. The terms of the Performance Shares are set out in Note 16. At grant date the Directors assessed the fair value of the services rendered to be \$541,000 which equates to \$0.0466 per share. However, over the vesting period of the Performance Shares (January 2006 to June 2008), value is transferred from the Ordinary Shares to the Performance Share Reserve proportional to the potential total number of shares issued/to be issued. Amounts will be transferred out of the reserve and into issued capital when the Performance Shares are converted. This amount will be expensed as an equity share based payment based on the fair value of the Performance Shares issued.

b. Share option

The share option reserve arises on the grant of 5,750,000 options to various officers and advisers of the Company that carry an option exercise price of \$1.20 per share. The 5,250,000 January 2009 Options have a fair value at grant date of \$0.2441 per option and the 500,000 February 2009 Options have a fair value at grant date of \$0.2490 per option. Amounts are transferred out of the reserve and into issued capital when the options are exercised. These amounts have been recognised based on the fair value of the options issued. 2,250,000 January 2009 Options and 500,000 February 2009 Options have been issued to directors as remuneration. Accordingly \$718,302 has been recognised as an expense.

c. Foreign currency translation reserve

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006 (CONTINUED)

18. Capital and Leasing Commitments

	Economic Entity 2006 \$	Parent Entity 2006 \$
a. Operating Lease Commitments		
Operating leases contracted for but not capitalised in the financial statements		
Payable – minimum lease payments		
- not later than 12 months	106,105	28,974
- between 12 months and 5 years	387,357	52,021
- greater than 5 years	1,924,063	-
	<hr/> 2,417,525	<hr/> 80,995
<i>Kuantan Port Sub-Lease</i>		
Mission Biotechnologies Sdn Bhd has entered into a sub-lease of 2 lots totalling 24,000 sq metres of land at Kuantan Port, Malaysia.		
The term of the sub-lease is from 1 March 2006 to 30 December 2027. Every 3 years, commencing 1 January 2007, the annual rental will be increased by 10%.		
<i>Office lease</i>		
The office lease is for a term of 3 years from 15 March 2006. The annual lease payments will increase by 4% each year.		
b. Capital Expenditure Commitments		
Capital expenditure commitments contracted for: -		
- Acquisition and installation of biodiesel plant	21,231,847	-
	<hr/> 21,231,847	<hr/> -
Payable:		
- not later than 12 months	17,748,435	-
- between 12 months and 5 years	3,483,412	-
	<hr/> 21,231,847	<hr/> -

19. Contingent Liabilities and Contingent Assets

The parent entity is not aware of any contingent liabilities or contingent assets as at 30 June 2006.



20. Segment Reporting

a. Primary Reporting – Business Segments

	Biodiesel Refining 2006 \$	Unallocated 2006 \$	Economic Entity (Continuing Operations) 2006 \$
Revenue			
External sales	-	424,460	424,460
Other segments	-	-	-
Total segment revenue	-	424,460	424,460
Total revenue			424,460
Result			
Segment result (before elimination of intra-group transactions)	-	(386,106)	(386,106)
Intra-group transactions	-	-	-
Segment result (after elimination of intra – group transactions)	-	(386,106)	(386,106)
Profit/loss from ordinary activities before income tax			(386,106)
Income tax expense			(226,943)
Net profit/(loss)			(613,049)
Assets			
Segment assets (before intra-group eliminations)	6,583,127	35,804,398	42,387,525
Intra-group eliminations	-	-	-
Segment assets (after intra-group eliminations)	6,583,127	35,804,398	42,387,525
Consolidated total assets			42,387,525
Liabilities			
Segment liabilities (before intra-group eliminations)	-	811,614	811,614
Intra-group eliminations	-	-	-
Segment liabilities (after intra-group eliminations)		811,614	811,614
Consolidated total liabilities			811,614
Other			
Acquisitions of non-current assets	6,583,127	430,627	7,013,754
Depreciation and amortisation	-	2,793	2,793
Non-cash expenses other than depreciation and amortisation	-	718,302	718,302

b. Secondary Reporting – Geographical Segments

	Australia 2006 \$	Malaysia 2006 \$	Economic Entity 2006 \$
Segment Revenue from External Customers	407,903	16,557	424,460
Carrying Amount of Segment Assets	17,124,806	25,262,719	42,387,525
Acquisitions of Non-current Segment Assets	913,503	6,100,251	7,013,754

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006 (CONTINUED)

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, and accrued expenses. Segment assets and liabilities do not include deferred income taxes.

Intersegment Transfers

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

Business and Geographical Segments

Business Segments

The economic entity has only one business segment, which is the Biodiesel Refinery segment. This segment is in a phase of construction and will not commence production until Fiscal Year 2008.

Geographical Segments

The economic entity's business segment is located in Malaysia with the Economic Entity's head office located in Australia.

21. Cash Flow Information

	Economic Entity 2006 \$	Parent Entity 2006 \$
a. Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Loss after income tax	(613,049)	(393,871)
Non-cash flows in profit		
- Depreciation of plant and equipment	2,793	1,929
- (Increase)/decrease in future tax benefit	(142,282)	(146,395)
- Net foreign exchange differences	(507,138)	(520,238)
- Options expense	718,302	718,302
- Deferred tax on capital raising costs	369,313	369,313
Net cash provided by operating activities before change in assets and liabilities	(172,061)	29,040
Change in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
- (Increase) decrease in receivables	(284,268)	(265,487)
- (Increase) decrease in other assets	(50,712)	(42,939)
- Increase (decrease) in trade and other payables	146,941	119,356
	(188,039)	(189,070)
Cash used in operations	(360,100)	(160,030)



Economic Entity
2006
\$

Parent Entity
2006
\$

b. Credit Standby Facilities with Banks

Credit facility	21,930,471	12,023,000
Amount utilised	21,458,677	11,551,206
	471,794	471,794

The major facilities are summarised as follows:

Letters of Credit

Letters of credit have been established, as required under the contracts with Crown Iron Works and Hexagon, to facilitate payments to these companies. The total value of the facilities has been secured by term deposits.

22. Share-based Payments

The following share-based payment arrangements existed at 30 June 2006:

The company has issued a total of 5,250,000 January 2009 Options. These options are held by Argonaut Securities Pty Limited and directors of the parent entity and subsidiary company. Each option is an option to acquire 1 Share at an exercise price of \$1.20 and can be exercised at any time on or before 31 January 2009.

The company has issued 500,000 February 2009 Options to Mr Williams. Each option is an option to acquire 1 Share at an exercise price of \$1.20 and can only be exercised on or before 28 February 2009. In addition these options cannot be exercised until (1) Mr Williams has completed 12 months service with the company as Finance Director and Company Secretary; or (2) a takeover bid is made for the Company, the Company enters into a scheme of arrangement or a person acquires more than 50% of the Shares.

The terms of the January 2009 Options and the February 2009 Options shall be adjusted for pro rata and bonus issues of Shares to Shareholders and for capital reconstructions in accordance with their terms.

Neither the January 2009 Options or the February 2009 Options are quoted on ASX.

	Number of Options	Economic Entity 2006 Weighted Average Exercise Price \$	Number of Options	Parent Entity 2006 Weighted Average Exercise Price \$
Outstanding at the beginning of the period	-	-	-	-
Granted	5,750,000	1.20	5,750,000	1.20
Outstanding at period-end	5,750,000	1.20	5,750,000	1.20
Exercisable at period-end	5,250,000	1.20	5,250,000	1.20

The options outstanding at 30 June 2006 had a weighted average exercise price of \$1.20 and a weighted average remaining contractual life of 2.6 years. The exercise price is \$1.20 in respect of all options outstanding at 30 June 2006.

Both the January 2009 Options and the February 2009 Options were valued using the Black-Sholes Model. The key assumptions were as follows:

- The exercise price of the options was \$1.20;
- The underlying share price was \$1.00;
- The volatility of the share price was implied to be 39.82% which was calculated by reference to other biodiesel producing companies listed on ASX;
- A risk free rate of return of 5.17%, based on the Commonwealth Bonds 3 Year Indicator Rate;
- There was no dilution factor attributable to the issue of the options; and
- No options would be exercised before their maturity date.

The impact of applying these assumptions was that the January 2009 Options were valued, at grant date, at \$0.2441 per option and the February 2009 Options were valued, at grant date, at \$0.2490 per option.

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

Included under employee benefits expense in the income statement is \$47,072 and relates, in full, to equity-settled share-based payment transactions.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006 (CONTINUED)

23. Events Occurring Subsequent to Balance Date

There have been no significant transactions subsequent to 30 June 2006 that should be brought to account for the period then ended.

24. Related Parties

	Economic Entity 2006 \$	Parent Entity 2006 \$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.		
Transactions with related parties:		
a. Other related parties		
Management fee charged to Mission Biotechnologies Sdn Bhd, a 100% owned subsidiary company	-	190,000
b. Key Management Personnel		
Retainer and bonus paid to Mr Parantaman Ramasamy (director of Mission Biotechnologies Sdn Bhd) for his role in bringing the Biodiesel project to fruition.	270,500	270,500
Retainer and bonus paid to Chitvan Consultants Sdn Bhd (executive director Mr Bansal is a director of this company and has a controlling interest) for his role in bringing the Biodiesel project to fruition.	270,500	270,500
Company secretarial and advisory fees paid to Wize Platform Sdn Bhd, a company that is owned by the wife of Mission Biotechnologies Sdn Bhd director, Mr Parantaman Ramasamy.	66,883	-
Provision of services by Mr Arvind Bansal per an independent contractor agreement. The key terms of the agreement are:	19,032	19,032
<ul style="list-style-type: none"> • a term of 3 years, with Mission Biofuels able to terminate the agreement prior to the expiration of the maximum term by giving 2 months notice and payment of a fee of 12 months retention; • rights of termination for cause are included for both parties; • total remuneration of \$120,000 per annum plus reimbursable expenses; • no provision for bonus payments; and • cascading post employment restraint for either 1 or 3 years commencing on the termination date of this agreement throughout South East Asia or Australia 		



25. Financial Instruments

a. Financial Risk Management

The group's financial instruments consist mainly of deposits with banks and accounts receivable and payable.

Financial Risks

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

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating rate deposits. At 30 June 2006 approximately 95% of group deposits are fixed. This high percentage will diminish over the course of the next year as money is drawn down to pay for the build of the biodiesel plant. For further details on interest rate risk refer to Note 25b i.

Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the foreign currencies held in its bank accounts.

Liquidity risk

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

Credit risk

The economic entity does not have any material credit risk exposure.

b. Financial Instruments

i. Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on classes of financial assets and financial liabilities, is as follows:

	Note	Fixed Interest Rate					Total 2006 \$	Weighted Average Effective Interest Rate 2006 %
		Floating Interest Rate 2006 \$	Within 1 Year 2006 \$	1 to 5 years 2006 \$	Over 5 years 2006 \$	Non-Interest Bearing 2006 \$		
Financial Assets:								
Cash and cash equivalents	8	4,443,180	30,363,154	-	-	240,230	35,046,564	4.1
Receivables	9	-	-	-	-	284,268	284,268	-
		4,443,180	30,363,154	-	-	524,498	35,330,832	
Financial Liabilities:								
Trade and other payables	14	-	-	-	-	634,881	634,881	-
		-	-	-	-	634,881	634,881	-

ii. Net Fair Values

The net fair values of financial assets and liabilities approximate their carrying value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD 17 NOVEMBER 2005 TO 30 JUNE 2006 (CONTINUED)

26. Change in Accounting Policy

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and economic entity but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	AASB Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date for the Group
2004-3	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2006	1 July 2006
	AASB 124: Related Party Disclosures	No change, no impact	1 January 2006	1 July 2006
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005-5	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005-6	AASB 3: Business Combinations	No change, no impact	1 January 2006	1 July 2006
2005-9	AASB 132: Financial Instruments: Presentation	No change, no impact	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Disclosure and Presentation	Mission Biofuels Limited is in the process of evaluating the effect of these changes of which the impact is not reasonably estimable at the date of this financial report.	1 January 2006	1 July 2006
2005-10	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2007	1 July 2007
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2007	1 July 2007
	AASB 114: Segment Reporting	No change, no impact	1 January 2007	1 July 2007
	AASB 117: Leases	No change, no impact	1 January 2007	1 July 2007
	AASB 133: Earnings per share	No change, no impact	1 January 2007	1 July 2007
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1 January 2007	1 July 2007
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2007	1 July 2007
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates	No change, no impact	1 January 2006	1 July 2006
New Standard	AASB 7: Financial Instruments: Disclosure	No change, no impact	1 January 2007	1 July 2007
New Standard	AASB 119: Employee Benefits: December 2004	No change, no impact	1 January 2006	1 July 2006

All other pending Standards issued during the current reporting dates have no application to either the parent or economic entity.



27. Company Details

The registered office of the company is:

Mission Biofuels Limited

Level 8, 50 St. Georges Terrace
Perth, WA 6000, Australia

The principal places of business are:

Mission Biofuels Limited

Head Office
Level 8, 50 St. Georges Terrace
Perth, WA 6000, Australia

Mission Biotechnologies Sdn Bhd

Suite 50-4-1, 4th Floor
Wisma UOA Damansara
50 Jalan Dungun
50490 Kuala Lumpur, Malaysia

DIRECTORS' DECLARATION

MISSION BIOFUELS LIMITED AND CONTROLLED ENTITIES

(ABN 63 117 065 719)

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 12 to 47, are in accordance with the Corporations Act 2001 and:
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. 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 economic entity;

2. the Chief Executive Officer and Chief Financial Officer have each declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view;

3. in the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Nathan Mahalingam

Managing Director

Dated this 12th day of September of 2006

INDEPENDENT AUDIT REPORT TO THE MEMBERS

MISSION BIOFUELS LIMITED AND CONTROLLED ENTITIES (ABN 63 117 065 719)



Grant Thornton 

Grant Thornton Western Australian Partnership
ABN 21 965 022 882
Chartered Accountants, Business Advisers and Consultants

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MISSION BIOFUELS LIMITED

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the year ended 30 June 2006.

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 financial position, and of its performance as represented by the results of its 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.

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INDEPENDENT AUDIT REPORT TO THE MEMBERS

(CONTINUED)

Grant Thornton Western Australian Partnership
ABN 21 965 022 882
Chartered Accountants, Business Advisers and Consultants

INDEPENDENT AUDIT REPORT TO MEMBERS OF MISSION BIOFUELS LIMITED (cont)

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.

Our audit did not involve an analysis of the prudence of business decisions made by the directors or management.

We have read the other information in the annual report to determine whether it contained any material inconsistencies with the financial report.

Independence

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

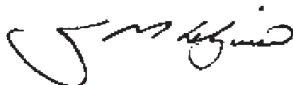
In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration has not changed as at the date of providing our audit opinion.

Audit opinion

In our opinion, the financial report of 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 financial reporting requirements in Australia.

GRANT THORNTON WESTERN AUSTRALIAN PARTNERSHIP



GREG LEGUIER
Partner

Perth, WA

Dated this 12 day of September 2006

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SHAREHOLDER INFORMATION



Twenty largest shareholders as at 31 August 2006

Investor	Number of shares	% Issued Capital
MISSION EQUITIES SDN BHD	24,640,000	27.08
TIGER GLOBAL INVESTMENT PARTNERS III LP	16,000,000	17.58
NU EQUITY SOLUTIONS SDN BHD	7,040,000	7.74
CITICORP NOMINEES PTY LIMITED	7,009,000	7.70
CHITVAN CONSULTANTS SDN BHD	4,400,000	4.84
MR PARANTAMAN RAMASAMY	4,400,000	4.84
WESTPAC CUSTODIAN NOMINEES LIMITED	4,058,896	4.46
RETRO ENERGY SDN BHD	3,520,000	3.87
NATIONAL NOMINEES LIMITED	1,527,111	1.68
UBS NOMINEES PTY LTD	1,297,977	1.43
MR JEFFREY CHARLES HOGAN	800,000	0.88
MR KARTHIK SARMA	600,000	0.66
COGENT NOMINEES PTY LIMITED	452,489	0.50
CADURA INVESTMENT LTD	400,000	0.44
MR JEFFREY CHARLES HOGAN	400,000	0.44
I E PROPERTIES PTY LTD	301,946	0.33
MR CLIVE BROWN MRS CYNTHIA MARGARET BROWN CLIVE BROWN FAMILY A/C	300,000	0.33
MR GARY JOHN BERRELL	300,000	0.33
TERRA DEVELOPMENTS PTY LTD TERRA SUPER FUND A/C	300,000	0.33
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED BK CUST A/C	279,000	0.31
Totals	78,026,419	85.77

SHAREHOLDER INFORMATION

(CONTINUED)

Distribution of equity securities as at 31 August 2006

Ranges	Investors	Number of shares	% Issued Capital
1 - 1,000	83	61,739	0.07
1,001 - 5,000	225	777,162	0.85
5,001 - 10,000	172	1,594,978	1.75
10,001 - 100,000	228	7,708,702	8.47
100,001 - 9,999,999,999	37	80,857,419	88.85
Rounding			0.01
Total	744	91,000,000	100.00

There were 8 holders holding less than a marketable parcel of ordinary shares.

Voting rights

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

CORPORATE DIRECTORY



Directors

Mr Dario Amara

Non-Executive Chairman

Tan Sri Razak Ramli

Non-Executive Deputy Chairman

Datuk Zain Yusuf

Non-Executive Director

Mr Nathan Mahalingam

Managing Director

Mr Arvind Bansal

Executive Director

Mr Peter Williams

Finance Director and Company Secretary

Registered Office and Head Office

Level 8

50 St Georges Terrace

PERTH WA 6000

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Fax: +61 (0) 8 9218 9100

Website

www.missionbiofuels.com.au

ASX Code

MBT

ABN

63 117 065 719

Legal Advisers

Deacons

108 St Georges Terrace

PERTH WA 6000

Share Registry

Computershare Investor Services Pty Limited

Level 2

45 St Georges Terrace

PERTH WA 6000

Auditors

Grant Thornton

Level 6

256 St Georges Terrace

PERTH WA 6000

Bankers

Australia and New Zealand Bank Limited

Level 7

77 St Georges Terrace

PERTH WA 6000

