



AnaeCo Limited  
Appendix 4D and financial report  
for the half-year ended 31 December 2015

The reporting period is the six months ended 31 December 2015 and the previous corresponding period is the six months ended 31 December 2014. The comparative statement of financial position is as at 30 June 2015. This Appendix 4D should be read in conjunction with the financial report for the year ended 30 June 2015 and considered together with any public announcements made by the Company during the six months ended 31 December 2015 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

| <b>Financial Results</b>  |           | <b>\$'000</b> |    | <b>6 months<br/>Ended<br/>31 Dec 2015</b> |
|---|-----------|---------------|----|---|
|   |           |               |    | <b>\$'000</b>                             |
| Revenue from ordinary activities                                | down from | 17            | to | 5   |
| Loss from ordinary activities after tax attributable to members | up        | 272%          | to | (9,788)                                   |
| Loss for the period attributable to members                     | up        | 272%          | to | (9,788)                                   |

#### **Dividends**

No dividends were paid during the period.

The Company does not propose to pay a dividend in respect of the half year ended 31 December 2015.

There is no dividend reinvestment plan.

A review of operations is contained within the Directors' Report in the half-year financial report.

| <b>Net Tangible Asset Backing</b>                        | <b>31 December 2015</b> | <b>31 December 2014</b> |
|--|-------------------------|-------------------------|
| Net tangible asset backing per ordinary security (cents) | (0.70)                  | (0.19)                  |

#### **Control over other entities**

The Company has neither gained nor lost control over any other entities in the reporting period.

#### **Audit report**

The auditor's review report contains a disclaimer of conclusion regarding continuation as a going concern, the recovery of recognised development expenditure and the adequacy of the cost to complete the WMRC project. In doing so, attention is drawn to Note 2(a) and Note 6 in the financial report.

# **ANAECO LIMITED**

**and controlled entities**

**ABN 36 087 244 228**

**FINANCIAL REPORT**

**For the half-year ended**

**31 DECEMBER 2015**

**ABN** 36 087 244 228

**Directors**

Mr Shaun Scott (Non-executive Chairman)

Mr Gianmario Alessio (“Les”) Capelli (Non-executive Director)

Mr David Lymburn (Managing Director and CEO)

**Company Secretaries**

Mr David Lymburn

Mr Tim Hinton

**Registered office and principal place of business**

3 Turner Avenue

Technology Park

Bentley, WA 6102

**Share Register**

Computershare Investor Services

Level 11

172 St Georges Terrace

Perth WA 6000

**Auditors**

Ernst & Young

11 Mounts Bay Road

Perth WA 6000

# AnaeCo Limited

## Directors' Report

Your directors submit their report on AnaeCo Limited and its controlled entities ("the Group") for the six months ended 31 December 2015.

### DIRECTORS

The names of the directors in office during the six month period and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Shaun Scott - Non-executive Chairman

Les Capelli - Non-executive Director

David Lymburn - Managing Director & CEO

### REVIEW AND RESULTS OF OPERATIONS

The net loss after tax of the Group for the six month period was \$9,788,370 (2014: loss \$2,628,881).

#### Review of Operations

##### Commercialisation of AnaeCo™ System

The principal focus of the Group during this period has again been the commercialisation of the AnaeCo™ System by way of its application at the Western Metropolitan Regional Council (WMRC) Project in Perth, Western Australia.

The WMRC Project involves the construction of a plant to process 55,000 tpa of municipal solid waste (MSW) for the WMRC and the City of Stirling. This project is being developed in conjunction with Palisade Investment Partners Limited's (Palisade) Regional Infrastructure Fund (PRIF). Design and construction of the second stage commenced in December 2010 and has involved increasing the capacity of the plant to 55,000 tpa and bringing it to full commercial operations. The Design & Construct services are being delivered jointly by AnaeCo Ltd and Monadelphous Group Limited, with AnaeCo responsible for design and commissioning and Monadelphous responsible for construction and procurement.

Construction completion was achieved in September 2013 and in October 2013 wet commissioning commenced with the introduction of MSW to the Material Recovery Facility (MRF). Biological ramp-up of the Bioconversion Facility (BCF) commenced in June 2014, and was completed in July 2015, after suffering a series of delays due to mechanical equipment and process water storage tank defects. All up these defects caused an approximate 6-7 month extension of the Biological ramp-up phase. (Biological ramp-up is the phase in commissioning operations whereby the stock of anaerobic process water containing the bacterial inoculum that performs anaerobic digestion is expanded to a full facility level of 1,500m<sup>3</sup>.)

From August 2015 until early December 2015 the plant entered an extended maintenance shutdown period. During this term decisions were made to upgrade dewatering screw presses in the bioconversion vessel conveying systems, and to install a centrifuge for treatment of surplus process water prior to discharge in order to meet the requirements of the local Water Corporation residential treatment works.

In February 2016 the parties to the Design & Construct contract (AnaeCo, Monadelphous and the Palisade special purpose project entities) reached agreement on modified terms for completion of the project. This includes agreement that the contract specific performance trials are no longer required and the defect liability period will be deemed to be completed by an agreed exit date of 15 April 2016. By the exit date, the AnaeCo-Monadelphous joint operation are to complete a short list of remaining tasks, including the installation of the dewatering screw presses and centrifuge mentioned above, and all other matters required to achieve handover and demobilisation. This includes working with the newly appointed operations and maintenance contractor in a transitional ramp-up of plant operational activity by the exit date. Practical Completion and Final Completion as defined under the Design & Construct contract will be agreed as achieved by the exit date.

Whilst the WMRC Project has been underway, the Group has been preparing to expand its commercialisation activities. We have active project leads in Australia and a selection of interesting potential alliance opportunities under development with international parties.

As previously reported, achieving meaningful progress with all of these commercialisation opportunities has always been highly dependent on completing the remainder of commissioning of the WMRC Project successfully. Now that the terms for achieving project completion have been modified and agreed definitively, the pathway to commercialisation is clearer than before.

# AnaeCo Limited

## Directors' Report

### Intellectual Property

A substantial body of intellectual property (IP) has been created over 15 years in developing the AnaeCo™ System and it has been part of the Company's long term strategy to protect this IP using patent registration. Currently we have fourteen inventions protected by patents, or 'patent families'. In addition there are two inventions at the 'provisional patent' stage.

The first two patent families, covering the DiCOM™ Bioconversion Process and Pressure Aeration System, were registered in 1999 and 2000 respectively. AnaeCo holds eighteen granted national patents for these two inventions.

Through 2012 to 2014 a further ten patentable inventions were recorded and are progressing through the Australian patent system and also the PCT (Patent Co-operation Treaty) system. Once the PCT application process is completed (which is the case for nine of these ten inventions) our strategy is to apply for national patent registration across a matrix of individual countries.

The Australian system of patent examination, review and issuance will generally be completed before the PCT and related national phase registrations.

Summary of patents at various stages:

- PCT application under examination: 3
- National patent applications for registration: 54
- National patents granted: 31 (10 in Australia)
- Total international patents and patent applications: 88

### Coming up

Moving forward, the key operational goals for the Group in the coming year are;

- Completing handover of the WMRC facility to the client,
- Securing and commencing new revenue generating projects, and
- Refining and standardising the detailed design and IP package which is the AnaeCo™ System, and commercialising this through technology transfer and licensing arrangements both in Australia and overseas.

### **Review of Financial Performance**

To fund its delivery obligations on the WMRC Project, as well as the necessary completion of the AnaeCo™ System technology, the Group has been dependant on loan funding and R&D Tax Incentive claim monies throughout the six months.

The Group was successful in obtaining \$4,448,110 in R&D Tax Incentive Government grant funding relating to the 2015 income tax year, which was received in the period. This successful R&D Tax Incentive claim was based on the eligibility of the research and development expenditure on the AnaeCo™ System, which includes the demonstration of the technology at the WMRC Project.

At 31 December 2015, the Group had cash reserves of \$849,798 and net current liabilities of \$18,347,045.

Net current liabilities are stated after including a provision for the expenditure to be incurred in subsequent periods in completing the commissioning of the AnaeCo™ technology which is being installed at the WMRC Project.

### **Subsequent events**

On 9 February 2016, the parties to the Design & Construct Contract for the WMRC Project agreed modified terms for completion of the project. Completion will be effected by the AnaeCo-Monadelphous joint operation finishing a short list of remaining tasks including handover and demobilisation by an exit date of 15 April 2016.

Other than the matter described above, there has not been any matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## AnaeCo Limited Directors' Report

### **Auditor's Independence Declaration**

The auditor's independence declaration for the six months ended 31 December 2015 has been received and is included at page 5 and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink that reads "Shaun Scott". The signature is written in a cursive style with a large initial 'S'.

Shaun Scott

Chairman

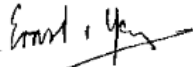
Perth, 29 February 2016

## Auditor's independence declaration to the directors of AnaeCo Limited

As lead auditor for the review of AnaeCo Limited for the half-year ended 31 December 2015, I declare 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of AnaeCo Limited and the entities it controlled during the financial period.



Ernst & Young



Robert A Kirkby  
Partner  
29 February 2016



# AnaeCo Limited

## Statement of Comprehensive Income

For the six months ended 31 December 2015

|  | Notes | Consolidated<br>6 months<br>31 Dec 2015<br>\$ | Consolidated<br>6 months<br>31 Dec 2014<br>\$ |
|--|-------|---|---|
| Revenue  | 3(a)  | 5,077   | 16,820  |
| Other income   | 3(b)  | -   | 2,059,090                                     |
| Project delivery costs   | 4(a)  | (7,259,107)                                   | (2,924,358)                                   |
| Technology development expense   | 4(b)  | (202,752)                                     | (178,295)                                     |
| Depreciation and amortisation  |       | (454,255)                                     | (461,687)                                     |
| Finance costs  | 4(c)  | (595,534)                                     | (181,737)                                     |
| Employee benefits expense  | 4(d)  | (573,383)                                     | (108,726)                                     |
| Other expenses   | 4(e)  | (708,416)                                     | (849,988)                                     |
| Loss before income tax expense   |       | (9,788,370)                                   | (2,628,881)                                   |
| Income tax (expense)/benefit   |       | -   | -   |
| Net loss after tax and total comprehensive loss for the period attributable to members of AnaeCo Limited |       | (9,788,370)                                   | (2,628,881)                                   |
| Loss per share attributable to ordinary equity holders of the company                                    |       |   |   |
| Loss per share (cents)   |       | (0.37)  | (0.10)  |
| Diluted loss per share (cents)   |       | (0.37)  | (0.10)  |

The accompanying notes form part of these financial statements

# AnaeCo Limited

## Statement of Financial Position

As at 31 December 2015

|   | Notes | Consolidated<br>31 December<br>2015<br>\$ | Consolidated<br>30 June<br>2015<br>\$ |
|---|-------|---|---------------------------------------|
| <b>ASSETS</b>                                       |       |   |                                       |
| <b>CURRENT ASSETS</b>                               |       |   |                                       |
| Cash and cash equivalents                           |       | 849,798                                   | 728,725                               |
| Trade and other receivables                         | 5     | 178,556                                   | 4,578,779                             |
| Other   |       | 4,582                                     | 4,582                                 |
| <b>TOTAL CURRENT ASSETS</b>                         |       | <b>1,032,936</b>                          | <b>5,312,086</b>                      |
| <b>NON-CURRENT ASSETS</b>                           |       |   |                                       |
| Property, plant & equipment                         |       | 20,040                                    | 34,592                                |
| Intangible assets                                   |       | 3,384,000                                 | 3,820,622                             |
| <b>TOTAL NON-CURRENT ASSETS</b>                     |       | <b>3,404,040</b>                          | <b>3,855,214</b>                      |
| <b>TOTAL ASSETS</b>                                 |       | <b>4,436,976</b>                          | <b>9,167,300</b>                      |
| <b>LIABILITIES</b>                                  |       |   |                                       |
| <b>CURRENT LIABILITIES</b>                          |       |   |                                       |
| Trade and other payables                            |       | 1,794,960                                 | 1,205,162                             |
| Provision for loss on engineering services contract | 6     | 8,120,340                                 | 4,338,951                             |
| Interest bearing loans and borrowings               | 7     | 9,224,086                                 | 8,581,373                             |
| Provisions  |       | 240,595                                   | 332,547                               |
| <b>TOTAL CURRENT LIABILITIES</b>                    |       | <b>19,379,981</b>                         | <b>14,458,033</b>                     |
| <b>NON CURRENT LIABILITIES</b>                      |       |   |                                       |
| Provisions  |       | 293,372                                   | 274,566                               |
| <b>TOTAL NON CURRENT LIABILITIES</b>                |       | <b>293,372</b>                            | <b>274,566</b>                        |
| <b>TOTAL LIABILITIES</b>                            |       | <b>19,673,353</b>                         | <b>14,732,599</b>                     |
| <b>NET LIABILITIES</b>                              |       | <b>(15,236,377)</b>                       | <b>(5,565,299)</b>                    |
| <b>EQUITY</b>                                       |       |   |                                       |
| Contributed equity                                  | 8     | 68,351,419                                | 68,171,419                            |
| Reserves  |       | 1,159,795                                 | 1,222,503                             |
| Accumulated losses                                  |       | (84,747,591)                              | (74,959,221)                          |
| <b>TOTAL SHAREHOLDERS' DEFICIT</b>                  |       | <b>(15,236,377)</b>                       | <b>(5,565,299)</b>                    |

The accompanying notes form part of these financial statements

# AnaeCo Limited

## Consolidated Statement of Cash Flows

For the six months ended 31 December 2015

|   | 6 months<br>31 Dec 2015<br>\$ | 6 months<br>31 Dec 2014<br>\$ |
|---|-------------------------------|-------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>               |                               |                               |
| Payments to suppliers and employees                       | (4,449,513)                   | (6,286,889)                   |
| Government grant – R&D Tax Incentive                      | 4,448,110                     | 4,590,098                     |
| GST received  | 73,301                        | 23,478                        |
| Interest received   | 5,077                         | 16,820                        |
| Interest paid   | (2,821)                       | (46,609)                      |
| NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES        | 74,154                        | (1,703,102)                   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>               |                               |                               |
| Purchase of property, plant and equipment                 | (3,081)                       | (1,461)                       |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES               | (3,081)                       | (1,461)                       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>               |                               |                               |
| Proceeds from borrowings                                  | 3,650,000                     | 3,049,000                     |
| Repayment of borrowings                                   | (3,600,000)                   | (2,549,000)                   |
| NET CASH FLOWS FROM FINANCING ACTIVITIES                  | 50,000                        | 500,000                       |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD | 121,073                       | (1,204,563)                   |
| Cash and cash equivalents at beginning of period          | 728,725                       | 1,641,915                     |
| <b>Cash and cash equivalents at end of period</b>         | <b>849,798</b>                | <b>437,352</b>                |

The accompanying notes form part of these financial statements

## AnaeCo Limited

### Consolidated Statement of Changes in Equity

For the six months ended 31 December 2015

|  | Issued capital<br>\$ | Accumulated<br>losses<br>\$ | Employee<br>benefits equity<br>reserve<br>\$ | Total equity<br>\$  |
|--|----------------------|-----------------------------|--|---------------------|
| <b>At the beginning of the half year</b>             | 68,171,419           | (74,959,221)                | 1,222,503                                    | (5,565,299)         |
| Loss for the period                                  | -                    | (9,788,370)                 | -  | (9,788,370)         |
| Total comprehensive loss for the period              | -                    | (9,788,370)                 | -  | (9,788,370)         |
| Transactions with owners in their capacity as owners |                      |                             |  |                     |
| Issue of share capital                               | 180,000              | -                           | -  | 180,000             |
| Share based payments                                 | -                    | -                           | (62,708)                                     | (62,708)            |
| <b>At the end of the half year</b>                   | <b>68,351,419</b>    | <b>(84,747,591)</b>         | <b>1,159,795</b>                             | <b>(15,236,377)</b> |

The accompanying notes form part of these financial statements

## AnaeCo Limited

### Consolidated Statement of Changes in Equity

For the six months ended 31 December 2014

|  | Issued capital<br>\$ | Accumulated<br>losses<br>\$ | Employee<br>benefits equity<br>reserve<br>\$ | Total equity<br>\$ |
|--|----------------------|-----------------------------|--|--------------------|
| <b>At the beginning of the half year</b>               | 67,757,640           | (67,151,228)                | 1,063,344                                    | 1,669,756          |
| Loss for the period                                    | -                    | (2,628,881)                 | -  | (2,628,881)        |
| Total comprehensive loss for the period                | -                    | (2,628,881)                 | -  | (2,628,881)        |
| Transactions with owners in their capacity as owners   |                      |                             |  |                    |
| Issue of share capital                                 | 151,000              | -                           | -  | 151,000            |
| Issue of share capital for employee share bonus scheme | 59,946               | -                           | (59,946)                                     | -                  |
| Share based payments                                   | -                    | -                           | 80,418                                       | 80,418             |
| <b>At the end of the half year</b>                     | <b>67,968,586</b>    | <b>(69,780,109)</b>         | <b>1,083,816</b>                             | <b>(727,707)</b>   |

The accompanying notes form part of these financial statements

# AnaeCo Limited

## Notes to the Financial Statements

### For the six months ended 31 December 2015

#### 1. CORPORATE INFORMATION

The half year condensed consolidated financial report of AnaeCo Limited and its controlled entities (“the Group”) for the six months ended 31 December 2015 (“the half-year financial report”) was authorised for issue in accordance with a resolution of the directors on 26 February 2016.

AnaeCo Limited is a for profit company incorporated and domiciled in Australia and limited by shares which are traded on the Australian Securities Exchange.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### a. Basis of preparation

The half-year financial report is a general-purpose condensed consolidated financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 “Interim Financial Reporting” as issued by the Australian Accounting Standards Board.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

The half-year financial report should be read in conjunction with the annual financial report of AnaeCo Limited as at 30 June 2015 and considered together with any public announcements made by the company during the six months ended 31 December 2015 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

##### Going Concern

The Group has net liabilities of \$15,236,377 (30 June 2015, net liabilities of \$5,565,299), net current liabilities of \$18,347,045 (30 June 2015, net current liabilities of \$9,145,947), a net increase in cash and cash equivalents of \$121,073 and incurred a net loss after income tax of \$9,788,370 for the six months ended 31 December 2015 (six months ended 31 December 2014, loss of \$2,628,881). As at 31 December 2015, the Group does not presently have sufficient funds to meet all of its expenditure commitments for the next 12 months.

The half year financial report has been prepared on a going concern basis. In arriving at this position the directors have had regard to the fact that the Group will, in the directors’ opinion, have access to sufficient cash to fund administrative and other committed expenditure for a period of not less than 12 months from the date of this report.

In forming this view the directors have taken into consideration the following;

- As a Group listed on the Australian Securities Exchange it has access to the Australian equity capital markets. Accordingly, the Group considers it maintains a reasonable expectation of being able to raise funding from the market as and when required, although it cannot determine in advance the terms upon which it may raise such funding.
- The Group is achieving its key milestones with respect to commercialising the AnaeCo™ System and specifically with respect to the application of the AnaeCo™ System at the WMRC Project, which is nearing completion. This progress results in steady interest in the Group’s technology from other prospective customers and accordingly the Group has a pipeline of business development opportunities. This provides an indication of the Group’s prospects of generating positive cash flow from operations in the future.
- In previous years AnaeCo Limited has submitted claims for the Research & Development Tax Incentive and has successfully qualified for the refundable R&D Tax Offset. Subject to continuing to meet the general eligibility criteria, the Company intends to submit a claim for the Research & Development Tax Incentive in respect of the 2016 tax year as a substantial portion of the expenditure incurred on completing commissioning of the AnaeCo™ System on the WMRC Project from 1 July 2015 until completion should meet the qualifying criteria for the same reasons as previous expenditure.

# AnaeCo Limited

## Notes to the Financial Statements

### For the six months ended 31 December 2015

- The Company has entered into loan agreements with Monadelphous Group Limited to provide funding of \$13,600,000. The loan facility is fully drawn at the date of this half year report and the Company and Monadelphous have made arrangements whereby Monadelphous continues to provide funding subject to the terms of the loan facility. These arrangements include regular review by Monadelphous and confirmation of the Company's expenditure and funding requirements on a periodic basis.

This loan is due for repayment on 15 April 2016. Monadelphous has indicated its intention to continue to provide financial support to the Company during the remainder of the WMRC Project commissioning period, which is scheduled to be completed in April 2016 in line with the terms of the Deed of Settlement and Release (see note 10).

The terms of the borrowings from Monadelphous Group Limited provide for all or part of the debt to be repaid by conversion to equity, at the lender's election. Such a conversion will require approval under ASX listing Rules, including shareholder approval. It is the directors' current expectation that a substantial portion of the loan will be repaid by a debt to equity conversion.

- Illustrating the interest in the AnaeCo technology from other organisations, on 2 September 2015 the Company announced the commencement of due diligence in relation to a potential corporate transaction involving a Chinese based company becoming a major shareholder in AnaeCo by purchasing the major portion of the loan owing by AnaeCo to Monadelphous Group Limited, and conversion of this loan to equity. At the date of this half year report this potential transactions remains on foot, with due diligence and documentation progressing.

The Board is confident that to the extent additional funding is required to fund administrative and other committed expenditure, or new development initiatives, it will be able to raise such funding in the financial markets.

The Group's ability to continue as a going concern and meet its debts and future commitments as and when they fall due is dependent on a number of factors, including;

- success with commercialising its AnaeCo™ technology and generating future sales to enable the Group to generate profit and positive cash flows;
- obtaining additional funding as and when required to meet its expenditure commitments; and
- receiving continued support from shareholders and creditors, which includes the expected conversion from debt to equity of a substantial portion of the loan owing to Monadelphous Group Limited either in isolation or as part of the completion of the potential corporate transaction involving a Chinese based company as explained above.

Should the Company and the Group not achieve the matters set out above, there is significant uncertainty whether it will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. The half year financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, or to the amounts or classification of liabilities that might be necessary should the Company and the Group not be able to continue as a going concern.

#### **b. Significant accounting policies**

Except as disclosed below, the half-year financial report has been prepared using the same accounting policies and methods of computation as used in the annual financial statements for the year ended 30 June 2015.

#### **c. New and amended accounting standards and interpretations**

Since 1 July 2015, the Group has adopted all Accounting Standards and Interpretations mandatory for annual periods beginning on 1 July 2015.

Adoption of these new and amending Standards and Interpretations did not have any effect on the financial position or performance of the Group.

AnaeCo Limited  
Notes to the Financial Statements  
For the six months ended 31 December 2015

The Group has not elected to early adopt any new Accounting Standards or Interpretations.

|  | 6 Months Ended<br>31 December<br>2015<br>\$ | 6 Months Ended<br>31 December<br>2014<br>\$ |
|--|---|---|
| <b>3. REVENUE</b>                                  |   |   |
| (a) <b>Revenue</b>                                 |   |   |
| Interest received                                  | 5,077                                       | 16,820                                      |
|  | <hr/>                                       | <hr/>                                       |
| (b) <b>Other income</b>                            |   |   |
| Government grant – R&D Tax Incentive 2015 tax year | -   | 2,059,090                                   |
|  | <hr/>                                       | <hr/>                                       |

The R&D Tax Incentive recognised during the six months ended 31 December 2014 relating to the 2015 tax year amounted to \$2,059,090, which has been recognised in the Statement of Comprehensive Income as Other Income

|  |             |             |
|--|-------------|-------------|
| <b>4. EXPENSES</b>   |             |             |
| (a) <b>Project delivery costs</b>  |             |             |
| Movement in provision for costs to complete  | 6,269,911   | 2,866,689   |
| Project operational expenditure  | 983,276     | -           |
| Cost of labour for engineering services  | 5,920       | 57,669      |
|  | <hr/>       | <hr/>       |
|  | 7,259,107   | 2,924,358   |
| (b) <b>Technology development expense</b>  |             |             |
| Expenditure on technology development  | 202,752     | 178,295     |
|  | <hr/>       | <hr/>       |
| (c) <b>Finance costs</b>   |             |             |
| Interest expense on other loan - secured   | 592,713     | 178,233     |
| Other interest   | 2,821       | 3,504       |
|  | <hr/>       | <hr/>       |
|  | 595,534     | 181,737     |
| (d) <b>Employee benefits expense</b>   |             |             |
| Wages and salaries   | 1,574,666   | 2,480,070   |
| Superannuation expense   | 164,215     | 245,540     |
| Less: labour costs allocated to provision for loss on engineering services contract and technology development expense | (1,169,753) | (2,764,265) |
| Non-executive directors remuneration   | 66,963      | 66,963      |
| Share based payments expense   | (62,708)    | 80,418      |
|  | <hr/>       | <hr/>       |
|  | 573,383     | 108,726     |
|  | <hr/>       | <hr/>       |



AnaeCo Limited  
Notes to the Financial Statements  
For the six months ended 31 December 2015

|  | 6 Months Ended<br>31 December<br>2015<br>\$ | 6 Months Ended<br>31 December<br>2014<br>\$ |
|--|---|---|
| <b>4. EXPENSES (continued)</b>                                   |   |   |
| (e) <b>Other expenses</b>  |   |   |
| Premises and related expenses                                    | 157,988                                     | 165,937                                     |
| Consultants  | 340,133                                     | 384,753                                     |
| Travel   | 7,601                                       | 36,447                                      |
| Other  | 202,694                                     | 262,851                                     |
|  | 708,416                                     | 849,988                                     |
|  | 31 December 2015<br>\$                      | 30 June 2015<br>\$                          |
| <b>5. TRADE AND OTHER RECEIVABLES</b>                            |   |   |
| R&D tax incentive receivable                                     | -   | 4,448,110                                   |
| Other receivables  | 178,556                                     | 130,669                                     |
|  | 178,556                                     | 4,578,779                                   |
| <b>6. PROVISION FOR LOSS ON ENGINEERING SERVICES CONTRACT</b>    |   |   |
| Current  | 8,120,340                                   | 4,338,951                                   |
| Movement in provision for loss on engineering services contract: |   |   |
| At beginning of the period                                       | 4,338,951                                   | 5,134,001                                   |
| Project expenditure applied against the provision                | (2,488,522)                                 | (5,134,001)                                 |
| Provision arising in the period                                  | 6,269,911                                   | 4,338,951                                   |
| At the end of the period   | 8,120,340                                   | 4,338,951                                   |

The provision for costs to complete at 31 December 2015 is included in the expected losses on the engineering services contract that have been recognised in the half year as it is considered probable that the total contract cost will exceed the total contract revenue.

The provision for costs to complete is a result of the inclusion of the total forecast revenue and forecast costs for the WMRC project, and includes the estimated costs to complete the development and commissioning of the AnaeCo™ technology, which is being installed at full operational scale for the first time at the WMRC project. Completion of the WMRC project is estimated to occur in April 2016.

The WMRC project is being undertaken jointly by AnaeCo and Monadelphous Group Limited (the AnaeCo-Monadelphous Joint Operation), under a Design & Construct contract for the principal, Brockway DiCOM Facility Pty Ltd as trustee for DiCOM AWT Investment Trust. The Design & Construct contract is a fixed price contract. Whilst AnaeCo and Monadelphous have joint and several responsibility for delivery under this contract, specific responsibilities have been allocated with AnaeCo responsible for design, technology and commissioning, and Monadelphous responsible for construction, and project management. Each of AnaeCo and Monadelphous account for their separate responsibilities and interests in the revenue and costs of completing the contract.

Other than as disclosed in note 10, there are no commitments or contingencies relating to the joint operation as at 31 December 2015 (30 June 2015: nil).

AnaeCo Limited  
Notes to the Financial Statements  
For the six months ended 31 December 2015

|   | 31 December 2015<br>\$ | 30 June 2015<br>\$ |
|---|------------------------|--------------------|
| <b>7. INTEREST BEARING LOANS AND BORROWINGS</b> |                        |                    |
| Other loan - secured                            | 9,224,086              | 8,581,373          |

This loan is from Monadelphous Group Limited and is to be repaid by 15 April 2016. At the lender's election, all or part of the balance outstanding may be repaid by conversion into equity in AnaeCo Limited, subject to shareholder approval.

The interest rate is 12% per annum and the loan is secured by a PPSA security interest over all PPSA personal property and a fixed charge over all other property.

**8. CONTRIBUTED EQUITY**

|   |             |             |
|---|-------------|-------------|
| Issued Capital  | 71,772,426  | 71,742,426  |
| Costs of capital raising  | (2,964,007) | (2,964,007) |
| 38,083,335 (June 2015: 41,083,335) Reserved shares <sup>(1)</sup> | (457,000)   | (607,000)   |
|   | 68,351,419  | 68,171,419  |

| Movements in ordinary fully paid shares     | Date              | Shares               | \$                |
|---|-------------------|----------------------|-------------------|
| <b>Balance at 30 June 2014</b>              |                   | 2,534,325,933        | 71,365,647        |
| Employee share bonus (2014 STI)             | Sep '14           | 8,861,607            | 59,946            |
| LTI shares issued                           | Dec '14           | 7,500,000            | 90,000            |
| LTI shares exercised                        | Jan '15           | (1,333,333)          | (10,667)          |
| LTI shares forfeited                        | Jan '15           | (1,500,000)          | (18,000)          |
| LTI shares forfeited                        | Jun '15           | (5,375,000)          | (93,000)          |
| Shares for services rendered                | Jul '14 - Jun '15 | 67,818,961           | 348,500           |
| <b>Balance at 30 June 2015</b>              |                   | 2,610,298,168        | 71,742,426        |
| LTI shares cancelled <sup>(2)</sup>         | Nov '15           | (3,000,000)          | (150,000)         |
| Shares for services rendered <sup>(3)</sup> | Jul - Dec '14     | 64,916,923           | 180,000           |
| <b>Balance at 31 December 2015</b>          |                   | <b>2,672,215,091</b> | <b>71,772,426</b> |

Holders of ordinary shares are entitled to receive dividends from time to time and are entitled to one vote per share at meetings. In the event of a winding up of the Group, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any surplus proceeds of liquidation

<sup>(1)</sup> Under the director and employee share incentive scheme, shares have been allotted to directors and employees pursuant to a loan funded share plan. The plan is accounted for as an in-substance option plan and shares issued under the plan are classified and disclosed as reserved shares. Under the terms of this plan the directors or employees must repay the value of each incentive share at the time of allotment, if and when the shares are ultimately sold for a value greater than the allotment price.

<sup>(2)</sup> The LTI shares that had been issued to the directors at \$0.05 per share were cancelled.

<sup>(3)</sup> Third party suppliers provided goods and services and the corresponding liability was settled via the issue of shares. The fair value of the shares was determined with reference to their quoted share price.

**Long Term Incentive (LTI) shares**

LTI grants to employees are delivered under an Employee Share Plan. A material feature of the Employee Share Plan is that the issue of ordinary shares to the employee pursuant to the plan can be by way of provision of a non-recourse, interest free legal loan ("loan") to the employee, to be used for the purposes of subscribing for the shares. The offer of a non-recourse, interest free loan is based on a share price that will be not less than the volume weighted average price at which shares were traded on the ASX over the 10 trading days up to and including the trading day before the date of acceptance of the offer. The loan is non-recourse because it is only repayable using proceeds from sale of the LTI shares, unless the employee

# AnaeCo Limited

## Notes to the Financial Statements

### For the six months ended 31 December 2015

elects to repay with their own funds.

After subscription, the LTI shares are issued as ordinary shares, and the employee enjoys the same rights and benefits as any other shareholder, apart from the vesting conditions. LTI shares are issued subject to vesting conditions, which mean they cannot be traded until the escrow period passes and the trading restriction is lifted. The shares vest with the employee in three equal annual instalments, subject to continuity of employment. Once the trading restriction has been lifted the employee may sell the shares.

If employment ceases for any reason, shares which have not reached the end of their escrow period are forfeited, and the corresponding loan is cancelled. Also upon cessation of employment, for shares which have vested the non-recourse loan becomes repayable one month after employment ceases, and in this situation the former employee can elect how to fund the loan repayment.

The nature of this scheme is to provide an incentive to cause the share price to rise over the term of an employee's service, as well as retaining the employee's service, and hence there are no specific performance conditions attaching to these LTI shares. LTI shares are considered to be "in substance options" or rights, under generally accepted accounting principles, and accordingly are accounted for similar to options.

These LTI rights were independently valued using the Black Scholes option valuation model which takes into account factors such as the share price at the date of grant, volatility of the share price, risk free rate and time period until vesting. Accounting standards require the value of the rights granted to be brought to account over the expected term of vesting the benefits to the holder.

During the half year the directors' 3,000,000 LTI rights that had been issued to them at \$0.05 per share were cancelled.

| Movement in LTI Rights:                       | 31 December 2015<br>LTI Rights | 30 June 2015<br>LTI Rights |
|---|--------------------------------|----------------------------|
| Balance at beginning of the period/year       | 41,083,335                     | 41,791,668                 |
| Granted                                       | -                              | 7,500,000                  |
| Cancelled/Forfeited                           | (3,000,000)                    | (6,875,000)                |
| Exercised                                     | -                              | (1,333,333)                |
| Closing balance at the end of the period/year | 38,083,335                     | 41,083,335                 |

The valuation of LTI rights granted at 31 December 2015 and the years in which the expense has been and will be recognised in the accounts is as follows:

| Year ending 30 June in which vesting and expense occurs: | Valuation of LTI rights granted as at 31 December 2015 | Valuation of LTI rights granted as at 30 June 2015 |
|--|--|--|
| 2015   | -  | 94,016   |
| 2016   | 118,021  | 118,021  |
| 2017   | 27,333   | 27,333   |
| 2018   | 4,167  | 4,167  |
| Total valuation of LTI rights granted                    | 149,521  | 243,537  |

## 9. DIVIDENDS

No dividends were paid or proposed during the 6 months ended 31 December 2015.

## 10. COMMITMENTS AND CONTINGENCIES

The Group has operating lease commitments and there has been no material change to the nature and extent of these since the last annual reporting date.

The Group has no capital commitments at the date of this report. Liabilities relating to completion of project delivery of the WMRC Project are provided for under Provision for Loss on Engineering Services Contract and included as current liabilities (refer note 6).

# AnaeCo Limited

## Notes to the Financial Statements

### For the six months ended 31 December 2015

On 9 February 2016 AnaeCo Limited signed a Deed of Settlement and Release with the other parties to the Design & Construct Contract for the WMRC Project in order to record the terms upon which completion of the project and the contract will occur. These terms confirm that there is no longer any defects liability period and there are no longer any defects obligations imposed on the AnaeCo-Monadelphous joint operation under the D&C Contract. The Deed of Settlement and Release includes the payment of a settlement sum to the Principal (Brockway DiCOM Facility Pty Ltd as trustee of DiCOM AWT Investment Trust) by the Contractor (AnaeCo Limited and Monadelphous Group Limited acting jointly).

The Group and Monadelphous Group Limited have been in discussions as to how responsibility for the settlement payment is to be allocated. The Group has obtained legal advice that it is not responsible for any part of such settlement payment, in accordance with the Joint Venture Agreement between AnaeCo Limited and Monadelphous Group Limited, and accordingly no provision for any part of it has been recorded in the financial statements at 31 December 2015.

In undertaking long term engineering and construction contracts there is always the possibility of claims being in progress. To the extent that any such claims or potential claims may exist that the Group is aware of, they are assessed on their merits and if considered necessary (which may be after taking legal advice), a provision for potential costs would be recognised and included in the accounts as part of the forecast outcome on completion of a particular contract. Any such provision would be an estimate based on the information available at the time. At the reporting date no such claims exist.

#### **11. SEGMENT REPORTING**

For management purposes, the Group is organised into one main operating segment, which operates in the waste management sector. All the Group's activities are interconnected and all significant operating decisions are based on analysis of the Group as one segment. The financial results of the segment are the equivalent of the financial statements as a whole. All revenues and non-current assets are considered to be derived and held in one geographical area being Australia.

#### **12. EVENTS AFTER BALANCE DATE**

On 9 February 2016, the parties to the Design & Construct Contract for the WMRC Project agreed modified terms for completion of the project. Completion will be effected by the AnaeCo-Monadelphous joint operation finishing a short list of remaining tasks including handover and demobilisation by an exit date of 15 April 2016.

Other than the matter described above, there has not been any matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

#### **13. FINANCIAL INSTRUMENTS**

At 31 December 2015, the carrying value of the financial assets and liabilities approximate their fair values.

#### **14. RELATED PARTY TRANSACTIONS**

Loan from Related Party:

At 31 December 2015, an amount totalling \$9,224,086 (including \$1,174,086 interest) has been borrowed from Monadelphous Group Limited. Monadelphous Group Limited owns 14.6% of the issued capital of AnaeCo Limited. The loan is included in the statement of financial position within interest bearing loans and borrowings. Refer to note 7 for further details

## AnaeCo Limited

### Directors' Declaration

In accordance with a resolution of the directors of AnaeCo Limited, I state that:

In the opinion of the directors:

- (a) the half year financial report and notes of the Group are in accordance with the Corporations Act 2001 including:
  - (i) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the six months ended on that date; and
  - (ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) subject to the matters referred to in note 2 to the financial statements, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Shaun Scott

Chairman

Perth, 29 February 2016

To the members of AnaeCo Limited

## Report on the half-year financial report

We have reviewed the accompanying half-year financial report of AnaeCo Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on conducting the review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Because of the matters described in the Basis for Disclaimer of Review Conclusion paragraphs, we were not able to obtain sufficient appropriate review evidence to provide a basis for a review conclusion.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

### Basis for disclaimer of review conclusion

As detailed in Note 2(a) to the financial report, the consolidated entity incurred losses of \$9,788,370 during the half-year ended 31 December 2015 and at that date, its current liabilities exceeded its current assets by \$18,347,045. We were unable to obtain sufficient appropriate review evidence as to whether the consolidated entity can achieve the matters disclosed in Note 2(a) and hence remove significant doubt of its ability to continue as a going concern within 12 months of the date of this auditor's review report.

The consolidated entity has recognised development expenditure, amounting to \$2,827,072, in the statement of financial position. We were unable to obtain sufficient appropriate review evidence to assess the consolidated entity's ability to fully recover this development expenditure.

As set out in Note 6 to the financial report, the consolidated entity has recognised a provision to complete the WMRC Project, amounting to \$8,120,340, in the statement of financial position. Due to the complex nature and level of uncertainty related to this project, we were unable to obtain sufficient appropriate review evidence to assess the adequacy of the cost to complete the WMRC Project.



## Disclaimer of review conclusion

Because of the significance of the matters described in the Basis for Disclaimer of Review Conclusion paragraphs, we have not been able to obtain sufficient appropriate evidence to provide a basis for a review conclusion. Accordingly, we do not express a conclusion on the financial report.

A handwritten signature in black ink, appearing to read 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Robert A Kirkby'.

Robert A Kirkby  
Partner  
Perth  
29 February 2016