

6 April 2016

Ms Anjuli Sinniah
Adviser, Listings Compliance
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Perth WA 6000

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Dear Ms Sinniah,

We refer to your letter dated 1 April 2016 and provide the following answers to your questions in relation to the Company's financial statements for the half-year ended 31 December 2015 ("the Accounts"). Our responses to your queries are as follows.

1. We confirm that, in the directors' opinion, the Accounts,
 - (a) Comply with the relevant Accounting Standards; and
 - (b) Give a true and fair view of the financial performance and financial position of the Company.

2. Auditor's Report and note 2(a) to the Accounts

The auditor draws attention to the excess of current liabilities over current assets by \$18,347,045 and comments that they *"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.."*

The excess of current liabilities over current assets includes (1) interest bearing loans and borrowings of \$9,224,086 and (2) provision for loss on engineering services contract of \$8,120,340.

- (1) The interest bearing loan is payable to Monadelphous Group Limited. Further details are given in note 7 to the Accounts and commentary on the importance of this loan is given in note 2(a). In particular we state *"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."*

"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 its 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"

In forming the view that the Accounts could be prepared on a going concern basis the directors placed reliance on Monadelphous' indicated intention to continue to provide financial support.

- (2) The provision for loss on engineering services contract is an estimate of the costs to complete the WMRC Project as of 31 December 2015. The auditor commented on *“the complex nature and level of uncertainty related to this project..”*.

The WMRC Project has been the first full scale demonstration of the AnaeCo™ System. A summary of current year activity and progress is given in the Review of Operations, part of the Directors' Report in the Accounts.

We also draw attention to the Company's ASX announcement released on 11 February 2016 explaining that the parties to the Design and Construct Contract for the WMRC Project have agreed modified terms for the completion of the project and an exit date during April 2016.

During this period it will be necessary to complete a list of remaining tasks and all other matters required to achieve handover and demobilisation. It is not a simple task to formulate an estimate of all potential costs involved and possibly difficult for an auditor to independently substantiate.

Note 2(a) also includes a reference to the Research & Development Tax Incentive as the Company intends to submit a claim for the R&D Tax offset in respect of the 2016 tax year.

We also draw attention to the Company's ASX announcement dated 2 September 2015 which describes a potential corporate transaction which would involve a Chinese based company becoming a major shareholder in AnaeCo by purchasing the major portion of a loan owing by AnaeCo to Monadelphous Group Limited and conversion of this loan to equity. We confirm that the process regarding this potential transaction is ongoing and is subject to negotiation.

3. The first matter to be addressed before raising additional capital is repayment of the Monadelphous loan. In note 2(a) we explain:

“The Monadelphous loan is due for repayment on 15 April 2016..

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.”

We go on to say:

“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.”

It remains the directors’ reasonable expectation that a substantial portion of the loan will be repaid by a debt to equity conversion.

The Company will decide on the timing, method and amount of a capital raising pending the outcome of a conversion of debt to equity of all or part of the Monadelphous loan and the outcome of the potential corporate transaction involving the Chinese company as referred to in the response to your question 2, above.

4. The Company prepares forecasts of capital equipment and commissioning/operating expenditure based on the best available information from the project manager and plant manager. The forecasts include labour and materials which are for AnaeCo’s account. It includes the best available knowledge of planned repairs, maintenance and as applicable, new work or re-work, for design or operational improvements. It also includes best available estimates of the time for scheduled completion of plant commissioning.

Predicting outcomes with accuracy is made difficult if there are problems with equipment supplied by others, time delays caused by others as well as results of commissioning requiring modifications, improvements and de-bottlenecking. As explained in the Review of Operations, forming part of the Directors’ Report, in the past year there have been a series of all such instances.

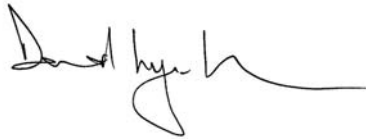
With an agreed exit date during April 2016 and the commitment to complete a short list of remaining tasks up to that date, it is anticipated that there should not be a requirement in future reporting periods to provide for costs associated with the WMRC project.

In the future we shall continue to apply good industry practice for project management, scheduling, estimate and predicting costs to complete engineering services contracts.

5. Yes. This conclusion is based on a reasonable expectation that the Company will fulfil its obligations with respect to the WMRC Project in the near term and that it will achieve effective repayment of the interest bearing loan owing to Monadelphous as described in response 3 above.
6. Not applicable.
7. Our goal is to successfully commercialise the AnaeCo™ System technology, which translates to building a profitable enterprise that has sufficient capital to sustain and grow its business operations.

8. The Company is in compliance with the Listing Rules and in particular Listing Rule 3.1.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Lymburn', with a long horizontal flourish extending to the right.

David Lymburn
Managing Director



1 April 2016

Mr Tim Hinton
Company Secretary
Anaeco Limited
3 Turner Avenue
BENTLEY WA 6102

By email: THinton@anaeco.com

Dear Mr Hinton

ANAECO LIMITED (the "Company")

ASX Limited ("ASX") refers to the following.

1. The Company's financial statements for the half-year ended 31 December 2015, released to the market on 29 February 2016 (the "Accounts").
2. The Independent Auditor's Report on pages 22 to 23 of the Accounts ("Auditor's Report") which includes the following Disclaimer of Opinion:

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.

Relevant Listing Rules and Guidance

- Listing Rule 12.2 – *An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.*
- Listing Rule 19.11A (b) – *If a listing rule requires an entity to give ASX accounts, the accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.*

Questions for Response

In light of the Auditor's Report, the information contained in the Accounts, and the application of the Listing Rules stated above, please respond to each of the following questions.

1. Is the Company able to confirm that, in the directors' opinion, the Accounts:
 - (a) comply with the relevant Accounting Standards; and
 - (b) give a true and fair view of the financial performance and financial position of the Company?
2. In light of the matters set out in the auditor's opinion, please explain the factors considered by the directors to satisfy themselves that, notwithstanding the auditor's opinion, the Accounts could be prepared on a going concern basis. In answering this question, please comment specifically on the matters referred to in note 2(a) to the financial statements in the Accounts.
3. The Company has stated in Note 2(a) that 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 Board is confident that to the extent additional funding is required to fund administrative and other committed expenditure or new development initiative, it will be able to raise such funding in the financial markets." What plans does the Company currently have to raise additional capital to address the going concern matters raised by the auditor?
4. The auditor states that "due to the complex nature and levels of uncertainty related to the project we are unable to obtain sufficient appropriate audit evidence to assess the adequacy of the cost to complete the WMRC Project". What steps does the Company intend to take to ensure in future periods it can provide the auditor with sufficient and appropriate audit evidence in relation to costs associated with the WMRC Project?



5. Does the Company consider that the financial condition of the Company is sufficient to warrant the continued quotation of its securities and its continued listing on ASX in accordance with the requirements of Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.
6. If the answer to question 5 is “No”, please explain what steps the Company has taken, or proposes to take, to warrant its continued listing on ASX in accordance with the requirements of Listing Rule 12.2.
7. What steps does the Company intend to take to obtain an unqualified audit opinion in the future?
8. Please confirm that the Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

Please note that ASX intends under Listing Rule 18.7A to release this letter and the Company’s response to the market. Accordingly, the Company’s response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by **no later than 4.00pm WST on Wednesday, 6 April 2016**. If the information is required immediately under Listing Rule 3.1, you should discuss with ASX whether it is appropriate to request a trading halt in the Company’s securities under Listing Rule 17.1.

Any response should be sent to me by return email. It should not be sent to the ASX Market Announcements Office.

If you have any questions in relation to the above, please do not hesitate to contact me if you have any enquiries on the above.

Yours sincerely,

[sent electronically without signature]

Anjuli Sinniah
Adviser, Listings Compliance (Perth)