



ANAECO LIMITED
ABN: 36 087 244 228

ANNUAL FINANCIAL REPORT 2016

Corporate Directory

Directors

Mr Shaun Scott (Chairman)
Mr Gianmario Alessio ("Les") Capelli (Non-executive Director)
Mr David Lymburn (Managing Director & CEO)

Company Secretaries

Mr David Lymburn
Mr Tim Hinton

Registered office

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Technology Park
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Auditor

Ernst & Young
11 Mounts Bay Road
PERTH WA 6000

DIRECTORS' REPORT

The directors present their report together with the Financial Statements of AnaeCo Limited ("the Company" or "AnaeCo" and its controlled entities "the Group") for the year ended 30 June 2016.

DIRECTORS

The names and details of the Group's directors in office during the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Shaun Scott – Chairman

B Bus (Accountancy), BA (Rec Admin), ACA

Mr Scott is a chartered accountant with over 25 years of upstream and downstream experience in the oil and gas and energy sector in Australia, Asia and the United States. He previously held the roles of Chief Executive Officer, Chief Commercial Officer and Chief Financial Officer with Arrow Energy Ltd. Prior to joining Arrow in 2004, his career spanned appointments as Group Finance Manager at Energy Developments Limited, Project Finance Director at NRG, and Manager of ARCO's international oil and gas M&A team.

During the past three years he has also served as a director of the following other listed companies:

- Titan Energy Services Limited – appointed 27 October 2011; resigned 14 April 2016
- Site Group International Limited – appointed 2 August 2012; resigned 27 May 2015
- Buccaneer Energy Limited – appointed 2 July 2013; resigned 14 August 2013

Gianmario Alessio ("Les") Capelli – Non-executive Director

Mr Capelli is the owner and Managing Director of Vector Lifting, a business involved in the design and supply of specialised and sophisticated lifting and railway maintenance equipment, which operates in Australia, Asia and the Middle East. His skills and experience are in the fields of engineering design, manufacture, project management and customer service delivery.

He has not served as a director of any other listed company in the past three years.

David Lymburn – Managing Director & CEO

B.Acc, ACA

Mr Lymburn is a Chartered Accountant with over 25 years experience in accounting and corporate management roles, both in the accounting profession and in the commercial sector. He has served as company secretary and CFO of a number of small to medium sized public listed companies.

He has not served as a director of any other listed company in the past three years.

COMPANY SECRETARIES

David Lymburn – Managing Director & CEO

B.Acc, ACA

Mr Lymburn has been a company secretary of AnaeCo Limited since January 2004.

Tim Hinton – Financial Controller

B.Bus, CA

Mr Hinton was appointed on 23 July 2013, he is a Chartered Accountant with over 20 years experience in accounting and financial reporting roles.

MEETINGS OF DIRECTORS

The number of meetings of the Board of Directors of the Company held during year ended 30 June 2016 and the number of meetings attended by each director is as follows:

	Meetings held	Meetings attended
Shaun Scott	8	8
Les Capelli	8	8
David Lymburn	8	8

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES OF THE COMPANY AND RELATED BODIES CORPORATE

The relevant interest of each Director in Shares of the Company at the date of this report is as follows:

	Fully Paid Ordinary Shares	In-substance Options Issued under LTI scheme	Total
Shaun Scott	19,501,824	-	19,501,824
Les Capelli	123,467,762	-	123,467,762
David Lymburn	10,558,607	7,250,000	17,808,607

PRINCIPAL ACTIVITIES

The principal activity of the Group is the development and commercialisation of a process for the treatment of organic municipal solid waste (the AnaeCo™ System).

OPERATING AND FINANCIAL REVIEW

The net loss after income tax of the Group for the financial year was \$7,320,378 (2015: loss \$7,807,993).

Review of Operations

Operating Activities

The principal focus during this financial year was completion of the Group's deliverables on the WMRC Project. This project involved the construction of a plant to process 55,000 tpa of municipal solid waste (MSW) for the Western Metropolitan Regional Council (WMRC) and the City of Stirling using the Group's proprietary AnaeCo™ System. This project was developed by Palisade Investment Partners Limited's (Palisade) Regional Infrastructure Fund. The Design & Construct services were delivered jointly by AnaeCo Ltd and Monadelphous Group Limited (Monadelphous), with AnaeCo responsible for design and commissioning and Monadelphous responsible for construction and procurement. All work under the Design & Construct contract was completed and the project was handed over to the client in April 2016.

As the prototype demonstration of the AnaeCo™ System the WMRC Project encountered over-runs in time and cost which have been reported in previous years. The financial impact of these overruns has been material and has significantly affected the Group's financial position, as explained in more detail below.

Consequently, maintaining the support of shareholders, lenders and creditors has been a continuing focus for management throughout the year. Securing new financial and commercial resources has been the primary objective for the Board and management this year and we are very pleased to report a successful outcome with the transaction executed after balance date by which Xiaoqing Environmental Protection Technology Co Ltd (XEPT) will become a 55.0% controlling shareholder by purchasing, then converting to equity, part of the loan owed by AnaeCo Ltd to Monadelphous. Monadelphous will also convert part of the remaining loan to equity on the same terms. These transactions, collectively described for the purposes of this report as the "XEPT transaction" have been developed over many months having been first notified to the market in September 2015 and are subject to AnaeCo Limited shareholder approval. Further details of the XEPT transaction are provided in this report under Significant Events After Balance Date. This transaction, in conjunction with the recent completion of the WMRC Project, is the start of the next phase of growth for AnaeCo and positions the Group to capture the value created through the Intellectual Property developed to date.

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'.

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 2015 a further twelve 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 our strategy is to apply for national patent registration across a matrix of individual countries.

DIRECTORS' REPORT

Summary of patents at various stages:

- PCT application under examination: 3
- National patent applications for registration: 49
- National patents granted: 35 (12 in Australia)
- Total national and international patents and patent applications: 87

Review of Financial Position

The Group's financial position at 30 June 2016 is cash on hand of \$610,885 and net current liabilities of \$15,346,966. Net liabilities at 30 June 2016 are \$12,712,656.

Key factors affecting the financial position in the 2016 financial period have been:

- expenditure incurred in completing the Group's deliverables on the Design & Construct Contract for the WMRC Project;
- completing and handing over the WMRC Project to the client in April 2016;
- receiving a R&D Tax Incentive refund of \$4,448,110 for eligible expenditure incurred in 2015;
- the expected receipt of a R&D Tax Incentive refund of \$5,626,783 for eligible expenditure incurred in 2016; and
- an increase in interest bearing borrowings with Monadelphous Group Limited during the year of \$7,575,020 to an amount at 30 June 2016 totalling \$16,156,393 (including \$1,956,393 interest). Terms of the borrowings from Monadelphous include the option for repayment of the loan by the issue of fully paid ordinary shares in AnaeCo Limited. Such a debt for equity conversion is subject to shareholder approval in accordance with ASX Listing Rules and the Corporations Law. (See also Significant Events After Balance Date).

Risk Management

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks and also opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board. The Group's most significant risks and how they are addressed are as follows:

Risk	How addressed
Project execution and delivery	Employment and retention of appropriately experienced and qualified personnel
Intellectual property	Patent registration
Technology development	Detailed records of the development of AnaeCo™ technology

DIVIDENDS PAID OR PROPOSED

No amounts have been paid or declared by way of dividend by the Company. The Directors do not propose to recommend the payment of a dividend for the year ended 30 June 2016.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year the following changes in the Group's state of affairs occurred.

- an increase in interest bearing borrowings with Monadelphous Group Limited during the year of \$7,575,020 to an amount at 30 June 2016 totalling \$16,156,393 (including \$1,956,393 interest). As at the date of this report, these interest bearing borrowings total \$16,620,874 (including \$2,220,874 interest).

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely developments in the forthcoming financial year include;

- Completion and settlement of the XEPT transaction as described under Significant Events After Balance Date.
- Establish collaborative working relationship with XEPT, which may include: integration of AnaeCo technologies with XEPT technologies, AnaeCo conducting business in conjunction with XEPT in China, and AnaeCo and XEPT jointly pursuing opportunities outside of China.

DIRECTORS' REPORT

SIGNIFICANT EVENTS AFTER BALANCE DATE

No matter or circumstance has arisen since the end of the financial year and up to the date of this report which significantly affects the results of the operations of the Group for the next financial year, other than:

- On 4 August 2016 AnaeCo Limited executed two agreements:
 1. "Loan Agreement Amendment and Restatement Deed", with Monadelphous Group Limited; and
 2. "Tripartite Deed of Sale and Co-operation AnaeCo Loan", with Monadelphous Group Limited as the Seller and Xiaoqing Environmental Protection Technology Co Ltd (XEPT) as the Buyer.
- The purpose of these agreements is to amend and restate all previous loan agreements and funding arrangements with Monadelphous Group Limited into a single agreement, and to enable XEPT to purchase a portion of the outstanding loan balance from Monadelphous, and for both XEPT and Monadelphous to convert the outstanding loan balances into equity ("the XEPT transaction"). The debt to equity conversion mechanism from the previous loan agreements is carried over to the Amended and Restated Loan Agreement.
- Key terms of the sale by Monadelphous as Seller and XEPT as Buyer are:
 - Monadelphous will assign its right and entitlement to the purchased loan amount to XEPT at completion for consideration of payment by XEPT to Monadelphous of \$11,500,000;
 - at Completion AnaeCo shall issue 4,151,515,217 shares to Monadelphous in satisfaction of the repayment of the retained loan amount (up to a maximum of \$5,729,091). This will result in Monadelphous having total voting power in the Company of 30.0% (when aggregated with Monadelphous' existing holding) on a fully diluted basis post Completion;
 - Monadelphous shall forgive and discharge the Company from repaying any amount of the retained loan amount exceeding \$5,729,091; and
 - at Completion, AnaeCo shall issue 8,333,333,333 Shares to XEPT in satisfaction of the repayment of the purchased loan amount (\$11,500,000). This will result in XEPT having total voting power in the Company of 55.0% on a fully diluted basis post Completion.
 - The share issue price for both the XEPT and Monadelphous debt to equity conversions is \$0.00138 per share.
- Other key terms of the Tripartite Deed affecting AnaeCo are:
 - Monadelphous shall ensure that at Completion, AnaeCo has a minimum cash balance of \$1,500,000 (after accounting for all current and non-current liabilities of the AnaeCo). To this end, at Completion, AnaeCo shall be deemed to have drawn down an advance under the loan agreement sufficient to result in it having the minimum cash balance, and this draw down shall be deemed to form part of the loan;
 - At Completion, Monadelphous shall refund to the Company an amount equal to 50% of the proceeds of the 2014/2015 Research and Development Claim (approximately \$2,200,000) which was paid by AnaeCo to Monadelphous as a loan repayment in November 2015; and
 - At Completion, as consideration for Monadelphous agreeing to forgive any outstanding loan balance greater than the sum of the purchased loan (\$11,500,000) and the retained loan (\$5,729,091), AnaeCo shall pay to Monadelphous an amount equal to, 85% of the first \$4,000,000 of R&D Tax Incentive cash refund received by AnaeCo for the 2016 income tax year, and 70% of the amount of such R&D cash refund in excess of \$4,000,000.
- Therefore, at Completion which is estimated to occur in November 2016 AnaeCo should:
 - be debt free;
 - have a minimum of \$4,800,000 in liquid assets comprising \$3,700,000 in free cash, plus a net receivable arising from the 2016 R&D Tax Incentive cash refund approximating \$1,100,000; and
 - have issued 12,484,848,550 new shares representing 82.4% of the expanded share capital.

The issue of new shares to XEPT and Monadelphous for the debt to equity conversion to implement the transactions described above requires prior approval of AnaeCo shareholders. AnaeCo will soon dispatch a Notice of Extraordinary General Meeting to its shareholders to convene a shareholder meeting. At this meeting, the relevant resolutions requiring approval to implement the XEPT transaction will be put to shareholders for voting.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the director and executive remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 ("the Act") and its Regulations. This information has been audited as required by section 308(3c) of the Act. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group directly or indirectly, including any director (whether executive or otherwise) of the Company.

For the purposes of this report, the term 'executive' refers to the Managing Director & Chief Executive Officer ("MD & CEO"). Therefore the Key Management Personnel are Les Capelli (Non-executive Director - appointed 28 November 2008), Shaun Scott (Non-executive Director - appointed 7 March 2012) and David Lymburn (MD & CEO - appointed 30 May 2014).

Remuneration Committee

The Board of Directors is responsible for determining and reviewing compensation arrangements for the directors and the executive team. The entire Board acts as the remuneration committee. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on an annual basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of appropriately qualified directors and executives.

Remuneration philosophy

The performance of the Group depends upon the quality of its executives and directors. To prosper, the Group must attract, motivate and retain highly skilled directors and executives. To this end the Group embodies the following principles in its remuneration framework;

- provide competitive rewards to attract high calibre directors and executives;
- link executive rewards to shareholder value;
- have a portion of executive remuneration linked to the performance of the Group and therefore "at risk"; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

Remuneration structure

This report explains the remuneration structure in place for the 2016 financial year.

Non-executive directors

Non-executive director remuneration is determined according to market practice for comparable companies and the Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 30 November 2006 when shareholders approved an aggregate remuneration of up to \$450,000 per annum. Total remuneration for the year is \$151,260 (2015: \$153,985).

Currently the Chairman and other Non-executive directors receive a base annual remuneration of \$70,000 each, inclusive of superannuation. Presently there are no additional fees for participation in Board committees, although consulting fees are payable when Non-executive directors are required to work outside the normal remit for Non-executive directors.

Non-executive directors were each issued, prior to the current financial year, 750,000 LTI rights under the Long Term Incentive share plan. Details of the terms and conditions of these incentive shares are provided elsewhere in this Remuneration Report. These shares were issued to incentivise the Non-executives to drive the Group to achieve its goals and to have this represented by growth in shareholder value. These rights were cancelled during the year.

Executive remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- reward executives for Group, departmental and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

DIRECTORS' REPORT

Structure

In determining the level and make-up of executive remuneration, the Board reviews current industry practices to benchmark market rates for KMP, and may if it is considered appropriate, engage external consultants to provide independent advice. In 2016 no external consultants were engaged to provide advice.

The Group has entered into a detailed contract of employment with Mr Lymburn. Details of this contract are provided below.

Remuneration consists of the following key elements:

- Fixed remuneration (base salary, superannuation and non-monetary benefits)
- Variable remuneration
 - Short term incentive ("STI"); and
 - Long term incentive ("LTI").

The proportion of fixed remuneration and variable remuneration for each executive is set out in the table on page 10.

Fixed remuneration

Objective

Fixed remuneration (base salary plus related superannuation contributions) is reviewed annually, each January by the Board. The process consists of a review of Group, departmental and individual performance, relevant comparative remuneration in the market and, where appropriate, external advice on policies and practice. In the current year no external advice was taken.

Structure

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. Fixed remuneration is measured on the basis of cost to the Group. Executive employment contracts provide for annual review of the fixed remuneration sum. There is no provision for guaranteed future incremental increases in fixed remuneration other than CPI increases.

Variable remuneration – Short term incentive (STI)

Objective

The objective of the STI program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. In the current financial year, the key Group operational targets were, the successful commissioning of the AnaeCo™ technology on the WMRC Project, securing sufficient capital to sustain operations, and the commercialisation of the AnaeCo™ technology. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Structure

Actual STI payments that may be granted to each executive depend on the extent to which specific targets, aligned to Group operational targets, set at the beginning of the financial year are met. The targets may consist of a number of stated objectives or key performance indicators (KPIs), which cover financial, non-financial, corporate and individual measures of performance.

The maximum STI bonus that may be payable under the current contracts is expressed as a percentage of annual base salary. For Mr Lymburn it is 30% of annual base salary of \$280,058 per annum.

Entitlement to the STI is partly weighted towards company performance measured as the Group's Total Shareholder Return ("TSR") performance relative to a peer group of comparable Australian listed companies, and partly weighted towards the employee's performance relative to the stated objectives.

For Mr Lymburn the weightings for STI entitlement are 40% for individual performance and 60% for company performance.

The company performance portion was assessed by the Board by calculating AnaeCo's TSR position relative to the peer group of comparable ASX listed companies. The peer group comprised ten other companies operating in the technology innovation sector. These ten ASX listed companies are: ToxFree Solutions (TOX), Transpacific (TPI), Pacific Environment (PEH), Novarise (NOE), Silex Systems (SLX), Papyrus Australia (PPY), Intec (INL), Dyesol (DYE), Carnegie Wave Energy (CWE), Geodynamics (GDY). After removing the best and worst performer from the group, AnaeCo Ltd achieved 10th place. TSR is calculated as the combination of share price growth over the financial year and gross dividend yield, expressed as a percentage of share price at the beginning of the year.

DIRECTORS' REPORT

The STI is awarded in the form of fully paid shares. The number of shares allocated is based on the volume weighted average price ("VWAP") for shares in the Group in the ten (10) days trading immediately prior to the award date. However, the Group may, at its discretion choose to pay some or all of the STI in cash.

For the 2016 year (and the 2015 year) Mr Lymburn elected to waive the award of his STI entitlement and the right to this award lapsed.

Variable remuneration – Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward executives in a manner that aligns remuneration with the creation of shareholder wealth.

Structure

LTI grants to executives 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 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 VWAP 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 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 legal loan is cancelled. Also upon cessation of employment, for shares which have vested the non-recourse legal 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.

The share price must rise above the award price before the employee receives any benefit. This structure of incentive was selected to align the longer term interests of KMP with the interests of shareholders.

Details of the number and vesting conditions of all LTI shares issued to KMP are provided elsewhere in this Remuneration Report.

Discretionary Bonuses

No discretionary bonuses were awarded during the current year.

Historical financial performance

The Group's financial performance during the 2016 year and for the four previous financial years is set out in the table below. The financial results shown below were all prepared under International Financial Reporting Standards (IFRS). The 2013 loss per share has been restated to reflect the effect of the renounceable rights issue completed during 2013 using a factor of 1.184.

	2016	2015	2014	2013	2012
Net (loss) after tax	(7,320,378)	(7,807,993)	(5,643,155)	(3,979,403)	(20,062,895)
(Loss) per share (cents)	(0.3)	(0.3)	(0.2)	(0.4)	(5.3)
Share price at 30 June (cents)	0.2	0.4	0.7	0.9	4.0

Employment contracts

The Group entered into an employment contract with David Lymburn dated 30 November 2015.

Under the contract he will receive fixed remuneration of \$280,058 per annum (excluding mandatory superannuation). The employment contract provides for CPI increases annually. There is no contracted

DIRECTORS' REPORT

increase to the levels of fixed remuneration in this employment contract, although there are provisions for adjustment following performance reviews.

Under the contract he is also entitled to short term incentive (STI) and long term incentive (LTI) compensation, in accordance with the remuneration framework outlined in this Remuneration Report.

The contract with David Lymburn has no fixed term. The contract may be terminated by the Group if he has an illness that prevents him from working or in the event of serious misconduct.

If the Group terminates the contract (other than for serious misconduct or illness) then he is entitled to be paid his full salary and entitlements for a period of 3 months (being the notice period stipulated in the contract). If there is a permanent and significant change in terms and conditions of employment, this will be deemed a termination of his contract and he will be entitled to a lump sum payment equal to fifty percent of his base salary.

Details of the nature and amount of each element of the emoluments of each KMP of the Group received for the financial period are presented in the following table.

2016	Short term benefits		Post employment benefits	Share based payments		Long term benefits		% performance related
	Salary and fees \$	Other ⁽²⁾ \$	Super-annuation benefits \$	Short term incentive (STI) ⁽¹⁾ \$	Long term incentive (LTI) ⁽³⁾ \$	Leave \$	Total \$	
<u>Non-executives</u>								
Shaun Scott	63,927	5,630	6,073	-	-	-	75,630	-
Les Capelli	70,000	5,630	-	-	-	-	75,630	-
<u>Executives</u>								
David Lymburn	280,058	5,630	26,605	-	25,021	7,021	344,335	-
Total remuneration	413,985	16,890	32,678	-	25,021	7,021	495,595	

(1) In addition to the total remuneration of \$344,335 disclosed in the table above, Mr Lymburn was entitled to an STI in respect of the 2016 year if specific targets were achieved, with the maximum amount payable being \$84,017. On the basis that Mr Lymburn waived his right to receive the STI for the 2016 year, the actual amount that would have been earned on achievement of the specific targets and payable to Mr Lymburn was not calculated.

(2) Includes directors and officers insurance premium of \$16,890, allocated across all KMP.

(3) Value of Long Term Incentive shares allotted, for which the expense is allocated to this period.

2015	Short term benefits		Post employment benefits	Share based payments		Long term benefits		% performance related
	Salary and fees \$	Other ⁽²⁾ \$	Super-annuation benefits \$	Short term incentive (STI) ⁽¹⁾ \$	Long term incentive (LTI) ⁽³⁾ \$	Leave \$	Total \$	
<u>Non-executives</u>								
Shaun Scott	63,927	4,950	6,073	-	2,308	-	77,258	-
Les Capelli	70,000	4,950	-	-	1,777	-	76,727	-
<u>Executives</u>								
David Lymburn	280,058	4,950	26,605	-	35,798	7,001	354,412	-
Total remuneration	413,985	14,850	32,678	-	39,883	7,001	508,397	

(1) In addition to the total remuneration of \$354,412 disclosed in the table above, Mr Lymburn was entitled to an STI in respect of the 2015 year if specific targets were achieved, with the maximum amount payable being \$84,017. On the basis that Mr Lymburn waived his right to receive the STI for the 2015 year, the actual amount that would have been earned on achievement of the specific targets and payable to Mr Lymburn was not calculated.

(2) Includes directors and officers insurance premium of \$14,850, allocated across all KMP.

(3) Value of Long Term Incentive shares allotted, for which the expense is allocated to this period.

The elements of emoluments have been determined on the basis of the cost to the Group.

Long term incentive (LTI) remuneration

The grant of LTI shares, which are considered to be "in substance options" or rights, under generally accepted accounting principles, was 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 options granted to be brought to account over the expected term of vesting the benefits to the holder.

DIRECTORS' REPORT

At the reporting date there are 7,250,000 LTI shares held by KMP which are subject to service conditions. 666,666 LTI shares with a value of \$5,333 (David Lymburn) have vested during the year. There is no expiry date on these vesting rights, but there must be continuity of employment to receive the vesting benefits.

Number of LTI rights	Date of grant	Share price at date of grant	Valuation per right	Exercise price of each right	Vesting conditions	
					Number of shares	Release from escrow, vesting date and first exercise date
5,250,000	22 Mar 2013	\$0.015	\$0.015	\$0.012	1,750,000	18 Dec 2012
					1,750,000	18 Dec 2013
					1,750,000	18 Dec 2014
2,000,000	1 Oct 2013	\$0.008	\$0.008	\$0.012	666,668	31 Dec 2013
					666,666	31 Dec 2014
					666,666	31 Dec 2015
<hr/>					7,250,000	

Additional disclosures relating to shares and rights to shares

Details of Key Management Personnel interest in rights through the LTI

30 June 2016	Rights at beginning of year	Rights exercised	Rights cancelled	Rights at end of year
	1 July 2015			30 June 2016
Les Capelli	750,000	-	750,000	-
Shaun Scott	750,000	-	750,000	-
David Lymburn	8,750,000	-	1,500,000	7,250,000
Total	10,250,000	-	3,000,000	7,250,000

Shareholdings of Key Management Personnel - shares held in AnaeCo Limited (number)

30 June 2016	Balance at beginning of year	Net change other	Balance at end of year
	1 July 2015		30 June 2016
Les Capelli	123,467,762	-	123,467,762
Shaun Scott	19,501,824	-	19,501,824
David Lymburn	10,558,607	-	10,558,607
Total	153,528,193	-	153,528,193

Loans and Transactions with Key Management Personnel and Related Parties

The Group did not make any loans to key management personnel or related parties or enter into any transactions with key management personnel or related parties during or since the end of the financial year.

Remuneration Report Approval 2015 AGM

The 2015 remuneration report received positive shareholder support at the 2015 AGM with a vote of 99% in favour.

END OF REMUNERATION REPORT

SHARE OPTIONS

At the date of this report, other than the 38,083,335 LTI in-substance options, no other issued options over ordinary shares existed as they expired without exercise before the end of the previous year.

No options were issued or exercised during the year. No options were granted or exercised subsequent to the end of the financial year.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the year the Group paid a premium of \$16,890 in respect of a Directors and Officers Insurance Policy. This policy provides insurance cover in certain circumstances for matters that may give rise to potential liability of directors and officers and includes the cost of defending such action, except where the liability arises out of:

- any conduct or contravention in respect of which a liability is the subject of a prohibition in section 199B(1) of the Corporations Act 2001; or

DIRECTORS' REPORT

- the committing of any deliberately dishonest or deliberately fraudulent act.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

During the year and up to the date of this report the Group has complied with all of its environmental obligations.

PROCEEDINGS ON BEHALF OF THE GROUP

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF ANAECO LIMITED

The directors have received an Independence Declaration from Ernst & Young the auditor of AnaeCo Limited which forms part of this Directors' Report and is included on page 13 of this financial report.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services: Tax consulting and compliance services; \$62,500.

OTHER DISCLOSURES

The Company is a public company, domiciled in Australia and listed on the Australian Securities Exchange (trading symbol: ANQ). The registered office and principal place of business is 3 Turner Avenue, Bentley, Western Australia 6102.

Signed in accordance with a Resolution of the Board of Directors



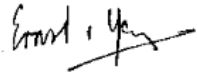
Shaun Scott
Chairman
Perth, 18 August 2016

Auditor's Independence Declaration to the Directors of AnaeCo Limited

As lead auditor for the audit of AnaeCo Limited for the financial year ended 30 June 2016, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Ernst & Young



Robert A Kirkby
Partner
18 August 2016

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement explains the Group's conformance with the 'Corporate Governance Principles and Recommendations' issued by the Australian Securities Exchange (ASX).

Principle 1 - Lay solid foundations for management and oversight

Companies should establish and disclose the respective roles and responsibilities of board and management.

The role and responsibilities of the Board are encompassed in the Board Charter (the Board Charter is published on the Group's website).

The roles and responsibilities of management, including the executive directors, are established from time to time by the Board as it carries out its function.

The philosophy and process for evaluating the performance of senior executives is provided in the Remuneration Report in each year's Annual Report.

Principle 2 – Structure the board to add value

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

The Board determines its size and composition, subject to the Corporations Act and the Company's Constitution. Accordingly there shall be not less than 3 and not more than twelve directors.

The Board shall include a balance of Non-executive and Executive directors. Non-executive directors will mostly be independent directors, but a Non-executive director could be non-independent. The Board in its Charter has adopted a fundamental principle that there should be a majority of independent directors. Presently there are three directors; Mr Shaun Scott is the independent director whereas Mr Les Capelli and Mr David Lymburn are not independent directors. Although Mr Capelli is a Non-executive director he is deemed not independent under ASX guidelines by virtue of his shareholding interest in the Company. Accordingly the Board structure does not presently comply with ASX Corporate Governance Principles and Recommendations, or the Board Charter. The Board has stated its intention to expand the Board with the addition of one or more independent directors.

The current Directors of the Group are listed in the most recent Annual Report as well as on the Group's website, with a brief description of their qualifications, experience and special responsibilities.

The roles of Chairperson and CEO are not exercised by the same individual.

The Chairperson is selected by the full Board.

Principle 3 – Act ethically and responsibly

Companies should actively promote ethical and responsible decision making.

The Group has a Code of Conduct which is applicable to all directors, management and staff. The Group also has a written policy governing directors, management and employees dealing in the Company's securities.

Copies of the Code of Conduct and the Policy for Trading in Company Securities are published on the Group's website.

Diversity

The Group recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. AnaeCo believes its diverse workforce is the key to its continued growth, improved productivity and performance.

AnaeCo actively values and embraces the diversity of our employees and are committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequity are not tolerated.

At 30 June 2016, 28% of our workforce was female. There are currently no senior executives or Board members who are female.

CORPORATE GOVERNANCE STATEMENT

Whilst the Group supports and seeks to comply with the recommendations contained in the ASX Corporate Governance Principles and Recommendations and has established a formal diversity policy, it has not yet established measurable objectives for achieving diversity.

Principle 4 – Safeguard integrity in corporate reporting

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

The CEO is required to provide a written undertaking to the Board providing assurances that the Group's financial reports present a true and fair view and are in accordance with relevant accounting standards. The CEO is also required to provide written assurances that the financial reports are based on a sound system of internal controls, and to explain any significant weaknesses in internal controls.

The Board has resolved to establish an Audit Committee. However the present composition of directors does not enable the Group to comply with ASX guidelines. Accordingly the entire Board performs the function of the Audit Committee.

The Audit Committee charter is published on the Group's website.

The Group has a policy on the provision of external audit and other professional accounting services. The external auditor is precluded from providing any services which in the opinion of the Audit Committee may threaten its independence or may cause a conflict with its assurance and compliance role.

Principle 5 – Make timely and balanced disclosure

Companies should promote timely and balanced disclosure of all material matters concerning the Group.

In accordance with ASX Listing Rules and the Corporations Act, a continuous disclosure regime operates throughout the Group.

The Group has a written policy regarding Market Disclosure and Communications. All management and staff are made aware of this policy and a copy of the policy is posted on the Group's website.

Principle 6 – Respect the rights of security holders

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

The Group has a written policy on Market Disclosure and Communications which includes a section on shareholder communications.

The policy explains what information is posted to the Group's website as well as information which will be mailed to all shareholders.

The Group's website includes a facility whereby any interested party, whether a shareholder or not, may register to receive by e-mail regular updates of selected ASX announcements or periodic shareholder/investor updates.

At General Meetings the Chairman encourages questions and discussions on all matters of business by shareholders. Shareholders who are unable to attend the meetings personally are encouraged to submit written questions on any matters of business.

The external auditor attends the Annual General Meeting and is available to respond to questions about the conduct of the audit and the preparation and content of the Independent Audit Report.

CORPORATE GOVERNANCE STATEMENT

Principle 7 – Recognise and manage risk

Companies should establish a sound system of risk oversight and management and internal control.

The full Board retains prime responsibility for policy regarding oversight and management of risk. The Board may delegate responsibility for aspects of risk management to the CEO and management.

In conjunction with their annual and half yearly sign off on the financial statements, the CEO will be required to report to the Board as to the effectiveness of the Group's management of its material business risks.

Principle 8 - Remunerate fairly and responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

The Board has resolved to establish a Remuneration Committee. However the present Board composition does not enable the Group to comply with ASX guidelines. Accordingly the entire Board performs the function of the Remuneration Committee.

The Remuneration Committee charter is published on the Group's website.

The Group has adopted a remuneration structure for executive directors and senior management which distinguishes between fixed remuneration and remuneration which is at risk. The remuneration which is at risk comprises short term and longer term incentive arrangements. Details of this as well as details of the employment contracts of senior executives are provided in the Remuneration Report contained in each year's Annual Report.

The Group acknowledges ASX guidelines that remuneration arrangements for non-executive directors should be clearly distinguished from arrangements for executive directors. The Group agrees with this recommendation with one exception. The Group considers non-executive directors should have capacity to share in equity based incentive arrangements for the following reasons;

- The nature of the Group's business and its stage of development mean the whole Board plays a critical role in developing strategies and decision making which will have a direct impact on the success of the Group. In other words, the role of the Board in such an early stage emerging Group is often closer aligned with management at key decision points. The Board is therefore accountable for the success or failure in creating and delivering strategies as well as the more traditional stewardship and governance role of Boards in larger and longer established companies.
- Equity based compensation incentives are a necessity in this day and age for smaller developing companies, at a higher risk stage in their life cycle, in order to attract non-executive directors with appropriate skills, experience and calibre.
- The Group has confidence it can establish equity based compensation incentives for non-executives which are balanced and not excessive, and accordingly in the best interests of shareholders.

The Corporations Act provides that all share or option issues to directors must be approved by shareholders. In submitting any proposal for equity based compensation of directors (both executive and non-executive) the Group will provide shareholders with all information required by the Corporations Act and ASX Listing Rules as well as a full explanation of its reasons why it considers the proposed remuneration arrangements to be appropriate.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2016

	Notes	June 30 2016 \$	June 30 2015 \$
Revenue	3(a)	12,331	21,500
Other income	3(b)	5,626,783	4,448,110
Project delivery costs	4(a)	(7,677,251)	(7,905,307)
Technology development expense	4(b)	(340,805)	(109,690)
Depreciation and amortisation expense	4(c)	(904,166)	(922,675)
Finance costs	4(d)	(1,379,936)	(511,044)
Employee benefits expense	4(e)	(1,231,939)	(1,210,746)
Other expenses	4(f)	(1,425,395)	(1,618,141)
Loss before income tax expense		(7,320,378)	(7,807,993)
Income tax (expense)/benefit	5	-	-
Net loss after tax attributable to members of AnaeCo Limited and total comprehensive expense for the period		(7,320,378)	(7,807,993)
Loss per share attributable to the ordinary equity holders of the Company	28		
Basic loss per share		(0.3) cents	(0.3) cents
Diluted loss per share		(0.3) cents	(0.3) cents

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	June 30 2016 \$	June 30 2015 \$
ASSETS			
Current Assets			
Cash and cash equivalents	6	610,885	728,725
Trade and other receivables	7	6,191,521	4,578,779
Other	8	4,582	4,582
TOTAL CURRENT ASSETS		6,806,988	5,312,086
Non Current Assets			
Property, plant and equipment	9	9,426	34,592
Intangible assets	10	2,948,890	3,820,622
TOTAL NON CURRENT ASSETS		2,958,316	3,855,214
TOTAL ASSETS		9,765,304	9,167,300
LIABILITIES			
Current liabilities			
Trade and other payables	13	5,788,434	1,205,162
Provision for loss on engineering services contract	14	-	4,338,951
Interest bearing loans and borrowings	15	16,156,393	8,581,373
Provisions	16	209,127	332,547
TOTAL CURRENT LIABILITIES		22,153,954	14,458,033
Non Current Liabilities			
Provisions	16	324,006	274,566
TOTAL NON CURRENT LIABILITIES		324,006	274,566
TOTAL LIABILITIES		22,477,960	14,732,599
NET LIABILITIES		(12,712,656)	(5,565,299)
EQUITY			
Contributed equity	17	68,351,419	68,171,419
Reserves	18	1,215,524	1,222,503
Accumulated losses	19	(82,279,599)	(74,959,221)
TOTAL SHAREHOLDERS' DEFICIT		(12,712,656)	(5,565,299)

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

	Notes	12 months June 30 2016 \$	12 months June 30 2015 \$
Cash flows from operating activities			
Interest received	3(a)	10,539	21,500
Other income	3(a)	1,792	-
R&D tax incentive received	3(b)	4,448,110	4,590,098
Payments to suppliers and employees		(10,766,097)	(11,220,716)
Interest paid		(4,916)	(49,671)
Net cash flows used in operating activities	20	(6,310,572)	(6,658,789)
Cash flows from investing activities			
Purchases of property, plant and equipment	9	(7,268)	(5,660)
Purchases of patents and trademarks classified as intangible		-	(134,074)
Net cash flows used in investing activities		(7,268)	(139,734)
Cash flows from financing activities			
Proceeds from the issue of shares		-	5,333
Proceeds from borrowings		9,800,000	8,429,000
Repayment of borrowings		(3,600,000)	(2,549,000)
Net cash flows from financing activities		6,200,000	5,885,333
Net decrease in cash and cash equivalents		(117,840)	(913,190)
Cash and cash equivalents at beginning of period		728,725	1,641,915
Cash and cash equivalents at end of period	6	610,885	728,725

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

For the year ended 30 June 2016

	Contributed equity \$	Accumulated losses \$	Employee benefits reserve \$	Total equity \$
At the beginning of the year	68,171,419	(74,959,221)	1,222,503	(5,565,299)
Loss for the period	-	(7,320,378)	-	(7,320,378)
Total comprehensive expense for the period	-	(7,320,378)	-	(7,320,378)
Transactions with owners in their capacity as owners				
Issue of share capital to third parties for share based payments	180,000	-	-	180,000
Share based payment	-	-	(6,979)	(6,979)
At the end of the year	68,351,419	(82,279,599)	1,215,524	(12,712,656)

For the year ended 30 June 2015

	Contributed equity \$	Accumulated losses \$	Employee benefits reserve \$	Total equity \$
At the beginning of the year	67,757,640	(67,151,228)	1,063,344	1,669,756
Loss for the period	-	(7,807,993)	-	(7,807,993)
Total comprehensive expense for the period	-	(7,807,993)	-	(7,807,993)
Transactions with owners in their capacity as owners				
Issue of share capital to third parties for share based payments	348,500	-	-	348,500
Issue of share capital for share based Payments	59,946	-	(59,946)	-
Issue of share capital	5,333	-	-	5,333
Share based payment	-	-	219,105	219,105
At the end of the year	68,171,419	(74,959,221)	1,222,503	(5,565,299)

NOTES TO THE FINANCIAL STATEMENTS

1 Corporate Information

The consolidated financial report of AnaeCo Limited (“the Company” or “AnaeCo”) and its controlled entities (“the Group”) for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 18 August 2016.

AnaeCo Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The registered office is 3 Turner Avenue, Bentley, Western Australia. AnaeCo Limited is the parent entity of the Group.

The principal activity of the Group is the development and commercialisation of a process for the treatment of organic municipal solid waste (the AnaeCo™ System).

2 Summary of significant accounting policies

(a) Basis of Preparation

The consolidated financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis.

The consolidated financial report is presented in Australian dollars, and the Company is a for-profit entity.

Going Concern

The Group has net liabilities of \$12,712,656 (2015: net liabilities of \$5,565,299) has net current liabilities of \$15,346,966 (2015: net current liabilities of \$9,145,947) and incurred an operating loss after income tax of \$7,320,378 (2015: loss of \$7,807,993) for the year ended 30 June 2016.

The 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 has, or in the directors’ opinion will 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. This progress generates interest in the Group’s technology from other prospective customers and accordingly the Group has a pipeline of project opportunities. This provides confidence for the Group’s prospects of generating positive cash flow from operations in the future.
- The Group has entered into loan agreements with Monadelphous Group Limited to provide loan facilities of \$14,400,000, which subsequent to the end of the financial year have been increased to \$23,000,000.
- On 4 August 2016 the Group entered into the XEPT transaction as described in more detail in note 26 Significant Events After Balance Date. The result of this transaction once completed and settled, which is expected to occur in November 2016, is that AnaeCo should be:
 - debt free; and
 - have a minimum of \$4,800,000 in liquid assets comprising \$3,700,000 in free cash, plus a net receivable arising from the 2016 R&D Tax Incentive cash refund approximating \$1,100,000.
- AnaeCo Limited will be submitting a claim for the Research & Development Tax Incentive in respect of the 2016 tax year. The Company is satisfied that it meets the criteria to qualify for a cash refund, and is confident the expenditure to be claimed in relation to the AnaeCo™ technology will satisfy the tests of eligibility. The amount of eligible expenditure in the 2016 year is estimated to be \$12,503,963 and if approved, would lead to a cash refund of \$5,626,783 which has been recognised in the current year financial statements, refer Note 3(b).

NOTES TO THE FINANCIAL STATEMENTS

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; and
- receiving the continued support of its shareholders and creditors, which includes the expected conversion from debt to equity of a substantial portion of the loan owing to Monadelphous Group Limited.

Should the Group not achieve the matters set out above there is significant uncertainty whether the Company and the Group will continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustment 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 or the Group not be able to continue as a going concern.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Since 1 July 2015, the Group has adopted all Accounting Standards and Interpretations, mandatory for annual periods beginning on or before 1 July 2015, including:

Ref	Title	Summary
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	The Standard contains three main parts and makes amendments to a number of Standards and Interpretations. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 <i>Materiality</i>	The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.

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

A number of Australian Accounting Standards and Interpretations have been issued or amended but are not yet effective and have not yet been adopted by the Group. These are outlined in the table below.

The Group has not yet completed its assessment of the standards noted below but for new and amended Australian Accounting Standards and Interpretations effective at 1 July 2016, it is expected that there will be no significant impact on the Group.

Ref	Title	Summary	Application date of standard	Application date for Group
AASB 9	Financial Instruments	AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. Classification and measurement AASB 9 includes requirements for a simpler approach for classification	1 January 2018	1 July 2018

NOTES TO THE FINANCIAL STATEMENTS

		<p>and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities.</p> <p>The main changes are described below.</p> <p>Financial assets</p> <p>a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>Financial liabilities</p> <p>Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> ▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▶ The remaining change is presented in profit or loss AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss. <p>Impairment</p> <p>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p> <p>Hedge accounting</p> <p>Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.</p> <p>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.</p> <p>AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.</p>		
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	<p>AASB 2014-3 amends AASB 11 Joint Arrangements to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:</p> <p>(a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and</p> <p>(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.</p> <p>This Standard also makes an editorial correction to AASB 11</p>	1 January 2016	1 July 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	<p>AASB 116 Property Plant and Equipment and AASB 138 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	1 January 2016	1 July 2016

NOTES TO THE FINANCIAL STATEMENTS

AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>AASB 2014-10 amends AASB 10 Consolidated Financial Statements and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:</p> <ul style="list-style-type: none"> (a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and (b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. <p>AASB 2014-10 also makes an editorial correction to AASB 10. AASB 2014-10 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.</p>	1 January 2018	1 July 2018
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p>AASB 5 Non-current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or vice versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.</p> <p>AASB 7 Financial Instruments: Disclosures:</p> <ul style="list-style-type: none"> • Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7. • Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 Disclosure–Offsetting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134. <p>AASB 119 Employee Benefits: Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.</p> <p>AASB 134 Interim Financial Reporting: Disclosure of information 'elsewhere in the interim financial report' - amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.</p>	1 January 2016	1 July 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	<p>The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.</p>	1 January 2016	1 July 2016

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AASB 15	Revenue from Contracts with Customers	<p>In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue—Barter Transactions Involving Advertising Services).</p> <p>The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <p>(a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</p> <p>The AASB issued the Australian equivalent of IFRS 15, being AASB 15, in December 2014.</p> <p>Currently, these standards are effective for annual reporting periods commencing on or after 1 January 2017. Early application is permitted. The International Accounting Standards Board (IASB) has issued an amendment to IFRS 15 (the international equivalent of AASB 15) formalising the deferral of the effective date of IFRS 15 by one year to 1 January 2018. At this time, it is expected that the AASB will make a corresponding amendment to AASB15, which will mean that the application date of this standard for the Group will move from 1 July 2017 to 1 July 2018. AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.</p>	1 January 2018	1 July 2018
AASB 16	Leases	<p>The key features of AASB 16 are as follows:</p> <p>Lessee accounting</p> <ul style="list-style-type: none"> Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. AASB 16 contains disclosure requirements for lessees. <p>Lessor accounting</p> <ul style="list-style-type: none"> AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. <p>AASB 16 supersedes:</p> <p>(a) AASB 117 Leases (b) Interpretation 4 Determining whether an Arrangement contains a Lease (c) SIC-15 Operating Leases—Incentives (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease</p> <p>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.</p>	1 January 2019	1 July 2019
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions [Amendments to IFRS 2]	<p>This standard amends to IFRS 2 <i>Share-based Payment</i>, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:</p> <ul style="list-style-type: none"> The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments Share-based payment transactions with a net settlement feature for withholding tax obligations A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled 	1 January 2018	1 July 2018

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2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	This Standard amends AASB 112 <i>Income Taxes</i> (July 2004) and AASB 112 <i>Income Taxes</i> (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	This Standard amends AASB 107 <i>Statement of Cash Flows</i> (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	1 July 2017

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements, and
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income and statement of financial position from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group comprises the Company and its wholly owned controlled entities AnaeCo UK Limited AnaeCo Inc. and AnaeCo Asia Pte Ltd. AnaeCo UK Limited (a United Kingdom incorporated company), AnaeCo Inc (a United States incorporated company) and AnaeCo Asia Pte Ltd (a Singapore incorporated company) have not yet commenced business operations and to date have only incurred minimal corporate and administrative expenditure.

(d) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before the revenue is recognised.

Long term contracts

Revenue from engineering services contracts is recognised according to the provisions of each contract, and profit is recognised according to the stage of completion method. Stage of completion is measured by reference to actual costs incurred in providing the contract services as a percentage of the total forecast costs for completion of the contract services.

Where the forecast total costs to complete the contract exceed the forecast total revenue and the

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contract is estimated to be loss making it is deemed an onerous contract and a provision is made immediately for the full forecast loss.

When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

General engineering services

Revenue from general engineering services that do not form part of long term contracts, is based on a time billing system, with invoices raised at the end of each month when billable time has been spent. Revenue is recognised in the month when the service is provided.

Interest income

Revenue is recognised as the interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

(f) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of an arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

(g) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(h) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Objective evidence may mean the debt is more than 90 days past its due date. Bad debts are written off when identified.

(i) Long term contracts

Work in progress on long term contracts for engineering services is valued at contract cost to date, plus profit recognised to date if applicable, and less any provision for anticipated future losses and progress billings. Costs may include an allocation of overheads. Profit is measured using the stage of completion method which is explained in the accounting policy on Revenue Recognition.

(j) Financial assets and financial liabilities

Financial assets

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Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available for sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- AFS financial assets

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables. For more information on receivables, refer to note 7.

Derecognition

A financial asset is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when; the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Financial instruments - note 25
- Trade receivables - note 7

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The

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Group's financial liabilities include trade and other payables and loans and borrowings including any bank overdrafts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss. This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 15.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(k) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to

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the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(l) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(m) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows: Plant and equipment – over 2.5 to 15 years

(n) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Disclosures for significant assumptions - note (x)
- Intangible assets - note 10

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

De-recognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic

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benefits are expected to arise from the continued use or disposal of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognised.

(o) Interest in joint operation

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractual agreed sharing of control of the arrangement which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement.

To the extent the joint arrangement provides the Group with rights to the individual assets and obligations for liabilities arising from the joint arrangement, the arrangement is classified as a joint operation and as such, the Group recognises its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of the revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly

(p) Intangible assets

Acquired both separately and from a business combination

Intangible assets acquired separately or in a business combination, are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets that is at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each financial year end. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred. Intangible assets are tested for impairment where an indicator of impairment exists and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development, the ability to measure reliably the expenditure attributable to the intangible asset during its development and the ability to use the tangible asset generated. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each financial year end.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period. A summary of the policies applied to the Group's intangible assets is as follows.

	Patents	Development costs	Computer software
Useful lives	Finite	Finite	Two and a half years
Method used	Amortised up to 20 years on straight-line basis.	Amortised over 10 years on straight-line basis.	Amortised up to 2 1/2 years on straight-line basis.
Internally acquired or generated	Acquired	Internally generated	Acquired

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Impairment test/recoverable amount testing	Annually and more frequently when an indication of impairment exists.	Annually and more frequently when an indication of impairment exists.	Annually and more frequently when an indication of impairment exists.
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Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(q) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(r) Interest-bearing loans and borrowings

All loans and borrowings, other than those classified as fair value through profit and loss, are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date

(s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. The increase in the provision resulting from the passage of time is recognised in finance costs.

(t) Employee leave benefits

Short term benefits

Liabilities for short term benefits expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liability is settled. Expenses for non-vesting sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash flows.

(u) Pensions and other post-employment benefits

The Group makes contributions to superannuation funds on behalf of employees in accordance with Superannuation Guarantee Contribution obligations, recognising employee choice of fund as required. None of these arrangements give rise to defined benefit obligations by the consolidated entity. Contributions to superannuation funds are recognised at cost in the period incurred.

There are no other pension schemes or post-employment benefits.

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(v) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Details of plans in place for all or part of the financial year to provide these benefits are as follows:

- Long term incentive share scheme - Each non-executive director, each key management personnel and other senior members of staff, are granted long term incentive shares, under which shares vest to the employee over specified periods of time.
- Short term incentive scheme - Each key management personnel and other senior members of staff, were awarded annual short term incentive bonuses. Mr Lymburn waived his right to his STI entitlement for the 2016 year.

Details of all share based remuneration schemes and the number of shares and rights which have been issued under those schemes are provided in the Remuneration Report and elsewhere in the notes to these financial statements.

The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is generally determined using a Black Scholes valuation model.

In valuing equity-settled transactions, no account is taken of performance conditions other than market conditions.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the consolidated entity, will ultimately vest. This opinion is formed based on the best available information at balance date.

No expense is recognised for awards that do not ultimately vest. However, any amount subject to market conditions is considered to vest irrespective of whether or not that market condition is fulfilled.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the total fair value of the share based payment transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding rights is reflected as additional share dilution in the computation of earnings per share.

The long term incentive scheme (LTI) is accounted for as an in substance option plan due to the limited recourse nature of the loan.

(w) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or rights are shown in equity as a deduction from the proceeds.

Shares in the Company held under the long term incentive scheme (LTI) are classified and disclosed as employee reserved shares and deducted from equity.

(x) Significant accounting judgements, estimates and assumptions

Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Capitalised technology development expenditure in intangibles

NOTES TO THE FINANCIAL STATEMENTS

In determining which technology development expenditure may be capitalised the Group applies judgement to distinguish those costs which have a direct relationship to the criteria for capitalisation described in accounting policy (p), from those which should be expensed in the period incurred. This involves evaluating the nature of work performed by staff as well as third party consultants and contractors, and in many cases includes a judgemental apportionment of costs. In this regard development activities include, the design, construction and operation of pilot plants not of a scale for commercial use and the design, construction and testing of alternative or improved materials, processes or systems.

Going concern

Use of the going concern assumption has required significant judgement, refer to note 2(a) Going Concern.

Significant accounting estimates and assumptions

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are;

Taxation

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the consolidated statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised in the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustments, resulting in a corresponding credit or charge to the income statement.

Impairment of non-financial assets

The Group assesses impairment of all assets (including intangible assets) at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such these assets have been tested for impairment in this financial period. Refer to note 10 for details regarding the method and assumptions used.

Long term contracts

The Group accounts for long term engineering services contracts using the stage of completion method. Profit on long term contracts is recognised according to the stage of completion. Stage of completion is measured by reference to actual costs incurred in providing the contract services as a percentage of the total forecast costs for completion of the contract services. This involves formulating judgements in terms of the time to completion and the estimated costs (for all costs which are not fixed) to be incurred to reach completion. Total forecast costs for completion of the contract services includes an estimate for all future costs to be incurred irrespective of whether the contract is estimated to be profitable or is estimated to result in a loss. Where applicable, estimates of future costs include an assessment for the settlement of any outstanding claims or disputes.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instrument at the date on which they are granted. The fair value is determined by an external valuer using a Black Scholes model, using the assumptions detailed in note 17. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amount of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(y) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

NOTES TO THE FINANCIAL STATEMENTS

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends),
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised, and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares,

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(z) Government Grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is deducted from the asset to which it relates, the net value of which is amortised over its expected useful life.

The Group is treating its expected receipt of the R&D Tax Incentive refund as a government grant.

	June 30 2016 \$	June 30 2015 \$
3(a) Revenue		
Interest income	10,539	21,500
Other revenue	1,792	-
	12,331	21,500
3(b) Other income		
Government grant – R&D Tax Incentive 2015	-	4,448,110
Government grant – R&D Tax Incentive 2016	5,626,783	-
	5,626,783	4,448,110
4(a) Project delivery costs		
Expenditure on long term engineering contract not previously provided for	7,508,673	3,491,488
Movement in provision for costs to complete	-	4,338,951
Cost of labour for engineering services billings	168,578	74,868
	7,677,251	7,905,307
4(b) Technology development expense		
Expenditure on technology development	340,805	109,690
4(c) Depreciation and amortisation expense		
Depreciation of property, plant & equipment	32,434	49,840
Amortisation of patents, licences and intellectual property	871,732	872,835
	904,166	922,675

At the reporting date the Group is expecting to receive a R&D Tax incentive refund of \$5,626,783 for eligible expenditure incurred in 2016, all of which is recognised as Other Income in the current year.

During the previous year the Group received a R&D Tax incentive of \$4,448,110 for eligible expenditure incurred in 2015 which was recognised as a receivable in the 30 June 2015 financial statements and received in the 30 June 2016 financial year.

NOTES TO THE FINANCIAL STATEMENTS

	June 30 2016 \$	June 30 2015 \$
4(d) Finance costs		
Interest expense on loans from others	1,375,020	504,477
Other finance costs	4,916	6,567
	1,379,936	511,044
4(e) Employee benefits expense		
Wages and salaries	2,894,293	5,104,496
Defined contribution superannuation plan expense	287,962	482,878
Less: labour costs allocated to projects and technology development	(2,077,264)	(4,729,660)
Non-executive directors' remuneration	133,927	133,927
Share based payments expense	(6,979)	219,105
	1,231,939	1,210,746
4(f) Other expenses		
Premises and related expenses	342,291	353,808
Consultants and professional advisors	714,709	739,561
Travel	16,679	41,464
Other overheads	351,716	483,308
	1,425,395	1,618,141
5. Income Tax		
The major components of income tax expense are:		
Income statement		
<u>Current income tax</u>		
Current income tax (charge)/benefit	-	-
<u>Deferred income tax</u>		
Relating to origination and reversal of temporary differences	-	-
Income tax benefit as reported in the income statement	-	-
A reconciliation between tax benefit and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting loss before tax	(7,320,378)	(7,807,993)
At the statutory income tax rate of 30% (2015:30%)	(2,196,113)	(2,342,398)
(Income not assessable)/expenditure not allowable for income tax purposes	(1,267)	54,575
R&D expenditure	3,751,189	2,965,406
R&D tax incentive recognised not assessable	(1,688,035)	(1,334,443)
Tax losses & temporary differences not recognised	134,226	656,860
	-	-
Deferred income tax		
Deferred tax assets not recognised		
Unrecognised tax losses	15,702,139	14,455,249
Temporary differences	(659,576)	513,920
	15,042,563	14,969,169
Temporary differences comprises:		
Provision for completion of long term contract	-	1,301,685
Unamortised balance of business related expense deductions	93,891	179,314
Employee benefits provisions	159,940	182,134
Other	319,794	329,213
Intangibles - development expenditure	(1,233,201)	(1,478,426)
	(659,576)	513,920

NOTES TO THE FINANCIAL STATEMENTS

	June 30 2016 \$	June 30 2015 \$
6. Cash and Cash Equivalents		
Cash at bank and in hand	610,885	728,725
7. Trade and Other Receivables		
Current		
R&D tax incentive receivable	5,626,783	4,448,110
Other receivables	564,738	130,669
	<u>6,191,521</u>	<u>4,578,779</u>

The R&D Tax Incentive receivable is based on eligible expenditure which can be claimed under the R&D Tax Incentive scheme, for which the rate of refund is \$0.45 per \$1.00 of eligible expenditure. Other receivables are predominantly the net amount refundable from the excess of GST input credits over GST output liabilities.

There are no receivables which are past due and/or impaired. The fair value of trade and other receivables approximate their carrying value, and all receivables are expected to be received in full.

8. Other Assets (Current)		
Prepayments	4,582	4,582
9. Property, Plant and Equipment		
Property, plant and equipment at cost	724,347	717,079
Less accumulated depreciation	(714,921)	(682,487)
	<u>9,426</u>	<u>34,592</u>
Movements in carrying values during the year:		
Balance at 1 July	34,592	78,772
Additions	7,268	5,660
Disposals	-	-
Depreciation expense	(32,434)	(49,840)
Net carrying amount at 30 June	<u>9,426</u>	<u>34,592</u>

Refer to note 15 for encumbrances.

10. Intangibles		
Reconciliation of carrying amounts:		
Development expenditure (i)		
At beginning of year, net of accumulated amortisation	3,235,782	4,053,202
Amortisation expense	(817,420)	(817,420)
At end of year, net of accumulated amortisation	<u>2,418,362</u>	<u>3,235,782</u>
Patents and trademarks		
At beginning of period, net of accumulated amortisation	568,998	469,673
Capitalised during the year	-	134,074
Amortisation expense	(38,470)	(34,749)
At end of year, net of accumulated amortisation	<u>530,528</u>	<u>568,998</u>
Computer software		
At beginning of year, net of accumulated amortisation	15,842	36,508
Capitalised during the year	-	-
Amortisation expense	(15,842)	(20,666)
At end of year, net of accumulated amortisation	<u>-</u>	<u>15,842</u>

NOTES TO THE FINANCIAL STATEMENTS

	June 30 2016 \$	June 30 2015 \$
10. Intangibles (cont'd)		
Development expenditure	8,174,197	8,174,197
R&D Tax Incentive offset	(1,692,307)	(1,692,307)
Less accumulated amortisation	(4,063,528)	(3,246,108)
	2,418,362	3,235,782
Patents and trademarks	693,147	693,147
Less accumulated amortisation	(162,619)	(124,149)
	530,528	568,998
Computer software	231,267	231,267
Less accumulated amortisation	(231,267)	(215,425)
	-	15,842
Total intangibles at cost	9,098,611	9,098,611
Less R&D Tax Incentive offset	(1,692,307)	(1,692,307)
Less accumulated amortisation	(4,457,414)	(3,585,682)
Net carrying amount Intangibles	2,948,890	3,820,622

(i) This intangible asset represents that portion of expenditure incurred in development of the Group's AnaeCo™ alternative waste technology which management considers should be carried as an asset.

Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such the intangible assets have been tested for impairment in this financial period. Management consider that assets and liabilities recognised in the statement of financial position do not generate largely independent cash flows and have therefore concluded that the Group as a whole forms the lowest level cash generating unit ("CGU") to test for impairment.

Given the current status of the Group, the recoverable amount of the CGU is calculated as being its fair value less costs to sell. In calculating the fair value less costs to sell, the Group considered the relationship between its market capitalisation and the net carrying value of the CGU and has concluded that as its market capitalisation significantly exceeds the net carrying value of the CGU, no impairment exists as at 30 June 2016.

The Group has made significant progress with the commercialisation of the AnaeCo™ technology in the period. This includes the WMRC Project, where AnaeCo was responsible for the provision of engineering design services and plant commissioning. This Project involves the completion of a full scale commercial operating AnaeCo™ AWT plant facility and was completed and handed over to the client in April 2016.

Throughout the current period the Group has been working on the engineering design for the WMRC Project as well as investing time and cost into the development of the AnaeCo™ technology by revising designs, creating new standards and systems that will enable the technology to be applied across many projects as a product, or set of sub products. In previous years, where costs had been identified as directly relating to the creation of future benefits such as product designs and systems these costs were capitalised as an intangible asset.

The amortisation term for capitalised technology development expenditure is 10 years.

11. Investment in controlled entities	%	%
	equity interest	equity interest
AnaeCo UK Ltd (incorporated in United Kingdom)	100	100
AnaeCo Inc. (incorporated in United States)	100	100
AnaeCo Asia Pte Ltd (incorporated in Singapore)	100	100

NOTES TO THE FINANCIAL STATEMENTS

	June 30 2016 \$	June 30 2015 \$
12. Parent Entity Information		
Information relating to AnaeCo Limited:		
Current assets	6,800,451	5,305,685
Total assets	9,759,046	9,161,177
Current liabilities	22,153,543	14,455,371
Total liabilities	22,477,549	14,729,937
Net (liabilities)/assets	(12,718,503)	(5,568,760)
Contributed equity	68,351,419	68,171,419
Accumulated losses	(82,285,446)	(74,962,682)
Employee benefits reserve	1,215,524	1,222,503
Total shareholders' deficit	(12,718,503)	(5,568,760)
Net loss of the parent entity	(7,322,764)	(7,824,686)
Total comprehensive loss of the parent entity	(7,322,764)	(7,824,686)

Details of commitments and contingent liabilities of the parent entity are provided in note 21.

13. Trade and Other Payables		
Trade payables	5,561,963	767,760
Other payables and accrued expenses	226,471	437,402
	5,788,434	1,205,162

Trade payables are non-interest bearing and normally settled on 30 day terms.
The fair value of trade and other payables approximates their carrying value.

14. Provision for loss on Engineering Services Contract		
Current	-	4,338,951
Movement in provision for loss on Engineering Services Contract		
At beginning of period	4,338,951	5,134,001
Project expenditure applied against the provision	(4,338,951)	(5,134,001)
Provision arising in the period	-	4,338,951
At the end of the period	-	4,338,951

Completion of the WMRC Project occurred in the 2016 calendar year.

The WMRC Project was completed jointly by AnaeCo and Monadelphous Group Limited (the AnaeCo-Monadelphous Joint Arrangement), under a Design & Construct contract for the principal, Brockway DiCOM Facility Pty Ltd aff DiCOM AWT Investment Trust. The Design & Construct contract was a fixed price contract. Whilst AnaeCo and Monadelphous had joint responsibility for delivery under this contract, specific responsibilities had been allocated with AnaeCo responsible for design, technology and commissioning, and Monadelphous responsible for construction, and project management. Each of AnaeCo and Monadelphous accounted for their separate responsibilities and interests in the revenue and costs of completing the contract.

There are no commitments or contingencies relating to the joint operation as at 30 June 2016, (2015: nil).

As completion of the WMRC project occurred, the Group's interest in the joint operation at year end is as follows:

Joint Arrangement	Principal Activity	Principal Place of Business	Group Interest	
			30 June 2016 %	30 June 2015 %
AnaeCo Monadelphous Joint Arrangement	To deliver design and construct waste management systems to the WMRC DiCOM facility	Shenton Park, WA	-	50

NOTES TO THE FINANCIAL STATEMENTS

	June 30 2016 \$	June 30 2015 \$
14. Provision for loss on Engineering Services Contract (cont'd)		
Additional disclosures for contracts in progress at balance date:		
Current contracts		
Aggregate costs incurred to date	-	40,322,278
Billings	-	-
Losses recognised	-	(44,661,229)
Provision for costs to be incurred	-	(4,338,951)

15. Interest Bearing Loans and Borrowings

Current

Other loan secured	16,156,393	8,581,373
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Terms and conditions

This loan is from Monadelphous Group Limited and is to be repaid by the earlier of Completion under the XEPT transaction (see note 26 for further details), or termination of the Tripartite Deed.

The interest rate is 12% per annum.

It is secured by a PPSA security interest over all PPSA personal property and a fixed charge over all other property.

At the lender's election, all or part of the loan balance outstanding may be repaid by conversion into equity in AnaeCo Limited, subject to shareholder approval.

16. Provisions (Current and Non Current)

Current

Employee benefits – annual leave	209,127	332,547
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Non Current

Employee benefits – long service leave	324,006	274,566
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Number of employees at reporting date	18	42
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17. Contributed Equity

2,672,215,091 (2015: 2,610,298,168) issued and fully paid ordinary shares	71,772,426	71,742,426
Costs of capital raising	(2,964,007)	(2,964,007)
38,083,335 (2015: 41,083,335) reserved shares ⁽¹⁾	(457,000)	(607,000)
	68,351,419	68,171,419

Movements in issued capital	Date	2016		2015	
		Shares	\$	Shares	\$
Ordinary fully paid shares					
Balance at 30 June 2014	Sep '14			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 ⁽²⁾	Jan '15			(1,333,333)	(10,667)
LTI shares cancelled	Jan '15			(1,500,000)	(18,000)
LTI shares cancelled	Jun '15			(5,375,000)	(93,000)
Shares for services rendered ⁽³⁾	Jul'14 - Jun '15			67,818,961	348,500
Balance at 30 June 2015		2,610,298,168	71,742,426	2,610,298,168	71,742,426
LTI shares cancelled ⁽⁴⁾	Nov '15	(3,000,000)	(150,000)		
Shares for services rendered ⁽³⁾	Jul'15 - Jun '16	64,916,923	180,000		
		2,672,215,091	71,772,426		

⁽¹⁾ Under the Group's Long Term Incentive plan, shares have been allotted to directors and management 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 as at the time of allotment, if and when the shares are ultimately sold for a value greater than the allotment price.

⁽²⁾ Difference in fair value at date of exercise of employee's LTI rights.

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

⁽⁴⁾ The LTI rights that had been issued to the directors at \$0.05 per share were cancelled.

NOTES TO THE FINANCIAL STATEMENTS

Ordinary shares entitle the holder to;

- one vote per share at general meetings of shareholders,
- receive dividends declared as payable to ordinary shareholder, and
- participate in a distribution of assets upon winding up of the company after extinguishing all liabilities and any priority claims or charges.

Share Based Incentive Options

LTI grants to directors and 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 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 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 legal loan is cancelled. Also upon cessation of employment, for shares which have vested the non-recourse legal 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.

During the year 3,000,000 LTI rights were cancelled. The grant of these LTI rights was 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.

Movement in LTI Rights:	2016 LTI Rights	2015 LTI Rights
Balance at beginning of the year	41,083,335	41,791,668
Issued	-	7,500,000
Cancelled	(3,000,000)	-
Forfeited	-	(6,875,000)
Exercised	-	(1,333,333)
Closing balance at the end of the year	38,083,335	41,083,335

At the reporting date there are 38,083,335 LTI rights held by KMP and employees which are subject to service conditions. There is no expiry date on these vesting rights, but there must be continuity of employment to receive the vesting benefits.

At the reporting date 35,583,335 of these LTI rights are exercisable (2015: 27,638,891).

NOTES TO THE FINANCIAL STATEMENTS

	Number of LTI rights	Date of grant	Share price at date of grant	Valuation per right	Exercise price of each right	Vesting conditions	
						Number of shares	Release from escrow, vesting date and first exercise date
David Lymburn	5,250,000	22 Mar 2013	\$0.015	\$0.015	\$0.012	1,750,000	18 Dec 2012
						1,750,000	18 Dec 2013
						1,750,000	18 Dec 2014
David Lymburn	2,000,000	1 Oct 2013	\$0.008	\$0.008	\$0.012	666,668	31 Dec 2013
						666,666	31 Dec 2014
						666,666	31 Dec 2015
Others	5,666,667	Mar 2013	\$0.012	\$0.012	\$0.012	1,888,889	31 Mar 2014
						1,888,889	31 Mar 2015
						1,888,889	31 Mar 2016
Others	17,666,668	1 Oct 2013	\$0.008	\$0.008	\$0.012	5,888,890	31 Dec 2013
						5,888,889	31 Dec 2014
						5,888,889	31 Dec 2015
Others	7,500,000	31 Oct 2014	\$0.004	\$0.004	\$0.012	2,500,000	31 Dec 2014
						2,500,000	31 Dec 2015
						2,500,000	31 Dec 2016
Total	38,083,335						

A summary of the key assumptions used in applying the Black Scholes model to the LTI rights granted in the year other than those noted in the table above, is as follows:

	Date of grant	Share price at grant date	Volatility factor	Risk free rate	Expected life of right (Years)
David Lymburn	22 Mar 2013	\$0.015	95%	3.56%	70
David Lymburn	1 Oct 2013	\$0.008	100%	3.944%	70
Others	22 Mar 2013	\$0.015	95%	3.56%	70
Others	Mar 2013	\$0.01	95%	3.26%	70
Others	Mar 2013	\$0.012	95%	3.26%	70
Others	1 Oct 2013	\$0.008	100%	3.944%	70
Others	31 Oct 2014	\$0.004	100%	3.25%	70

The valuation of LTI rights granted as at 30 June 2016 and the years in which the expense has been, and will be, recognised in the accounts is as follows:

Year in which vesting and expense occurs	Valuation of LTI rights granted as at 30 June 2016	Valuation of LTI rights granted as at 30 June 2015
2015	-	94,106
2016	118,021	118,021
2017	27,333	27,333
2018	4,167	4,167
Total valuation of LTI rights granted in year	149,521	243,627

Discretionary Bonuses

No discretionary bonuses were awarded during the current year.

Short Term Incentive (STI) shares

Shares may be issued to KMP and management under the Short Term Incentive (STI) scheme.

Actual STI payments that may be granted to each executive depend on the extent to which specific targets, aligned to Group operational targets, set at the beginning of the financial year are met. The targets may consist of a number of stated objectives or key performance indicators (KPIs), which cover financial, non-financial, corporate and individual measures of performance.

The maximum STI bonus that may be payable under the current contracts is expressed as a percentage of annual base salary. For Mr Lymburn it is 30% of annual base salary of \$280,058.

Entitlement to the STI is partly weighted towards company performance measured as the Group's Total Shareholder Return ("TSR") performance relative to a peer group of comparable Australian listed companies, and partly weighted towards the employee's performance relative to the stated objectives.

For Mr Lymburn the weightings for STI entitlement are 40% for individual performance and 60% for company performance.

The company performance portion was assessed by the Board by calculating AnaeCo's TSR relative to the peer group of comparable ASX listed companies. The peer group comprised ten other companies operating

NOTES TO THE FINANCIAL STATEMENTS

in the technology innovation sector. These ten ASX listed companies are: ToxFree Solutions (TOX), Transpacific (TPI), Pacific Environment (PEH), Novarise (NOE), Silex Systems (SLX), Papyrus Australia (PPY), Intec (INL), Dyesol (DYE), Carnegie Wave Energy (CWE), Geodynamics (GDY). After removing the best and worst performer from the group, AnaeCo Ltd achieved 10th place. TSR is calculated as the combination of share price growth over the financial year and gross dividend yield, expressed as a percentage of share price at the beginning of the year.

The STI will be awarded in the form of fully paid shares. The number of shares allocated is based on the volume weighted average price ("VWAP") for shares in the Group in the ten (10) days trading immediately prior to the award date. However, the Group may, at its discretion choose to pay some or all of the STI in cash.

For the 2016 year, Mr Lymburn elected to waive the award of his STI entitlement and the right to this award lapsed.

Capital Management Policy

In managing capital (defined as equity plus borrowings) the Board's objective is to ensure the Group continues as a going concern (refer to note 2 (a)) as well as to maintain optimal returns to shareholders. It is also an underlying objective that the Group should operate with a capital structure that ensures the lowest cost of capital available to the Group. In its effort to achieve these objectives the Group seeks to raise capital as a blend of debt and equity, depending on availability of funds and the terms on which either debt or equity is available at particular times.

In the future the capital management policy will deal with dividend policy, dividend reinvestment, gearing levels, share buybacks and selling or retaining non-current assets to control debt levels. However, until the Group achieves stable operations and sustained positive cash flow, these matters do not form the focus of capital management policy.

	June 30 2016 \$	June 30 2015 \$
18. Reserves		
Employee benefits reserve	1,215,524	1,222,503
Balance at beginning of period	1,222,503	1,063,344
Share based payments	(6,979)	159,159
Balance at end of the period	1,215,524	1,222,503

The employee benefits reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

19. Accumulated Losses		
Opening balance	(74,959,221)	(67,151,228)
Current year loss attributable to members of the parent entity	(7,320,378)	(7,807,993)
Closing balance	(82,279,599)	(74,959,221)

20. Reconciliation of net loss after tax to the net cash flows from operating activities

Loss after tax	(7,320,378)	(7,807,993)
Non-cash items:		
Depreciation and amortisation	904,166	922,675
Share based payment expenses	(6,979)	219,105
Accrued loan interest	1,375,020	504,477
Consultancy fees not paid in cash	180,000	348,500
Net movement in the provision for loss on engineering services contract	(4,338,951)	(795,050)
Changes in net assets and liabilities:		
(Increase)/decrease in trade and other receivables	(1,612,742)	142,936
Decrease in prepayments	-	17,369
Increase/(decrease) in trade and other payables	4,583,272	(385,195)
(Decrease)/increase provision for employee benefits	(73,980)	97,491
Increase in interest bearing liabilities	-	76,896
Net cash flow used in operating activities	(6,310,572)	(6,658,789)

NOTES TO THE FINANCIAL STATEMENTS

	June 30 2016	June 30 2015
	\$	\$

21. Commitments and Contingencies

Operating lease commitments

The Group has entered into commercial leases for rental accommodation and certain items of plant and equipment. The leases have terms of between 12 months and 5 years. The lease covering the premises occupied by the Group's main business operation has a fixed term which will expire on 1 September 2016. There are no restrictions placed upon the lessee's business operations by entering into these leases.

Future minimum rentals payable under non-cancellable Operating leases at balance date are:

Within one year	27,434	164,602
After one year but not more than five years	-	27,434
	27,434	192,036

Capital commitments

The Group and the parent entity have no capital commitments at the date of this report.

Contingencies

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.

22. Related Party Transactions

Compensation for Key Management Personnel		
Short term employee benefits	430,875	428,835
Long term employee benefits (LSL)	7,021	7,001
Post-employment benefits	32,678	32,678
Share based payments	25,021	39,883
Total compensation	495,595	508,397
Key Management Personnel interest in rights through the LTI	7,250,000	10,250,000

Refer to note 17 for details of share based payments such as grant date, share price at grant date, valuation per right, exercise price of each right and vesting conditions.

Details of directors' remuneration and retirement benefits are disclosed in the Remuneration Report.

Loan from related party

At 30 June 2016, an amount totalling \$16,156,393 (including \$1,956,393 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 15 for further details.

23. 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 board of directors monitors the financial performance of the Group as a whole and performance is evaluated based on the financial results of the segment which are the equivalent of the consolidated financial statements as a whole. All revenues and non-current assets are considered to be derived and held in one geographical area being Australia.

24. Remuneration of Auditors

Amounts paid or due and payable to the auditors of the parent Company for:		
Audit services, including half year audit review services	83,158	90,168
Tax services	62,500	47,600
	145,658	137,768

NOTES TO THE FINANCIAL STATEMENTS

25. Financial Instruments

(a) Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and secured loans.

The Group also has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The Group's activities expose it to a variety of financial risks; credit risk, liquidity risk and interest rate risk. The Group does not yet have any significant foreign operations or dealings in foreign currency and therefore currency risk is minimal. However with the expansion of operations into international markets the Group will formulate appropriate policies and procedures to mitigate currency risk.

The Group does not have any financial derivatives, hedges or other off balance sheet products in place at 30 June 2016.

Risk management is carried out by executive management with guidance from the Audit Committee and the Board. Primary responsibility for identification and management of financial risks rests with the Board.

(b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The Group's maximum exposure to credit risk at reporting date in relation to each class of financial asset is limited to the carrying amount of those assets as indicated in the statement of financial position. The significant concentration of credit risk is in relation to the R&D Tax Incentive receivable and cash and cash equivalents.

The R&D Tax Incentive receivable is receivable from the Australian Tax Office.

Cash and term deposits are only held with mainstream Australian banks with AA credit ratings.

(c) Liquidity risk

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet financial commitments in a timely and cost-effective manner. This is done by continually reviewing business and cash flow forecasts, to determine the forecast liquidity position and requirements in advance. The contractual maturities of the Group's financial liabilities are as follows:

	June 30 2016	June 30 2015
	\$	\$
1 - 6 months	22,687,740	9,864,015

(d) Interest rate risk exposure

The Group'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 rates on classes of financial assets and financial liabilities, is as follows:

Variable rate instruments	2016		2015	
	\$	%	\$	%
Financial Assets				
Cash and cash equivalents	610,885	0.87	728,725	2.2

NOTES TO THE FINANCIAL STATEMENTS

(e) Sensitivity analysis

The following table illustrates the sensitivity of the Group's financial assets and liabilities to interest rate risk. This illustration presents the effect of each 1% increase or decrease in the prevailing interest rate. Had the relevant variable moved, with all other variables held constant, post tax profit and equity would have been affected as shown. The analysis has been performed on the same basis for 2016 and 2015.

1% interest rate sensitivity increments are considered reasonable in current global financial conditions.

	Carrying amount	Interest rate risk -1% Profit & Equity	Interest rate risk +1% Profit & Equity
	\$	\$	\$
30 June 2016			
Financial Assets			
Cash	610,885	(6,109)	6,109
30 June 2015			
Financial Assets			
Cash	728,725	(7,287)	7,287

(f) Net fair values of financial assets and liabilities

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their respective fair values, determined in accordance with the accounting policies disclosed in note 2.

26. SIGNIFICANT EVENTS AFTER BALANCE DATE

No matter or circumstance has arisen since the end of the financial year and up to the date of this report which significantly affects the results of the operations of the Group for the next financial year, other than:

- On 4 August 2016 AnaeCo Limited executed two agreements:
 - "Loan Agreement Amendment and Restatement Deed", with Monadelphous Group Limited; and
 - "Tripartite Deed of Sale and Co-operation AnaeCo Loan", with Monadelphous Group Limited as the Seller and Xiaoqing Environmental Protection Technology Co Ltd (XEPT) as the Buyer.
- The purpose of these agreements is to amend and restate all previous loan agreements and funding arrangements with Monadelphous Group Limited into a single agreement, and to enable XEPT to purchase a portion of the outstanding loan balance from Monadelphous, and for both XEPT and Monadelphous to convert the outstanding loan balances into equity ("the XEPT transaction"). The debt to equity conversion mechanism from the previous loan agreements is carried over to the Amended and Restated Loan Agreement.
- Key terms of the sale by Monadelphous as Seller and XEPT as Buyer are:
 - Monadelphous will assign its right and entitlement to the purchased loan amount to XEPT at completion for consideration of payment by XEPT to Monadelphous of \$11,500,000;
 - at Completion AnaeCo shall issue 4,151,515,217 shares to Monadelphous in satisfaction of the repayment of the retained loan amount (up to a maximum of \$5,729,091). This will result in Monadelphous having total voting power in the Company of 30.0% (when aggregated with Monadelphous' existing holding) on a fully diluted basis post Completion;
 - Monadelphous shall forgive and discharge the Company from repaying any amount of the retained loan amount exceeding \$5,729,091; and
 - at Completion, AnaeCo shall issue 8,333,333,333 Shares to XEPT in satisfaction of the repayment of the purchased loan amount (\$11,500,000). This will result in XEPT having total voting power in the Company of 55.0% on a fully diluted basis post Completion.
 - The share issue price for both the XEPT and Monadelphous debt to equity conversions is \$0.00138 per share.
- Other key terms of the Tripartite Deed affecting AnaeCo are:
 - Monadelphous shall ensure that at Completion, AnaeCo has a minimum cash balance of \$1,500,000 (after accounting for all current and non-current liabilities of the AnaeCo). To this end, at Completion, AnaeCo shall be deemed to have drawn down an advance under the loan agreement sufficient to result in it having the minimum cash balance, and this draw down shall be deemed to form part of the loan;
 - At Completion, Monadelphous shall refund to the Company an amount equal to 50% of the proceeds of the 2014/2015 Research and Development Claim (approximately \$2,200,000) which was paid by AnaeCo to Monadelphous as a loan repayment in November 2015; and

NOTES TO THE FINANCIAL STATEMENTS

- At Completion, as consideration for Monadelphous agreeing to forgive any outstanding loan balance greater than the sum of the purchased loan (\$11,500,000) and the retained loan (\$5,729,091), AnaeCo shall pay to Monadelphous an amount equal to 85% of the first \$4,000,000 of R&D Tax Incentive cash refund received by AnaeCo for the 2016 income tax year, and 70% of the amount of such R&D cash refund in excess of \$4,000,000.
- Therefore, at Completion which is estimated to occur in November 2016 AnaeCo should:
 - be debt free,
 - have a minimum of \$4,800,000 in liquid assets comprising \$3,700,000 in free cash, plus a net receivable arising from the 2016 R&D Tax Incentive cash refund approximating \$1,100,000 and
 - have issued 12,484,848,550 new shares representing 82.4% of the expanded share capital.
- The issue of new shares to XEPT and Monadelphous for the debt to equity conversion to implement the transactions described above requires prior approval of AnaeCo shareholders. AnaeCo will soon dispatch a Notice of Extraordinary General Meeting to its shareholders to convene a shareholder meeting. At this meeting the relevant resolutions requiring to be approved to implement the XEPT transaction will be put to shareholders for voting.

27. DIVIDENDS

No dividends have been paid or declared during the year.

28. EARNINGS PER SHARE

	June 30 2016	June 30 2015
Basic loss per share	(0.3) cents	(0.3) cents
Weighted average number of shares used in the calculation of basic earnings per share	2,654,645,730	2,562,120,152
Diluted loss per share	(0.3) cents	(0.3) cents
Loss used in determination of basic and diluted earnings per share	(7,320,378)	(7,807,993)

Basic and diluted loss per share for all periods prior to the renounceable rights issue completed during the 2013 year have been adjusted by a factor of 1.184 to account for the bonus element.

Securities on issue and rights at balance date which are potentially dilutive to earnings per share:

Rights to shares in Employee share plan (LTI)	38,083,335	41,083,335
Total potentially dilutive securities	38,083,335	41,083,335

These potentially dilutive securities have not been used in calculating diluted earnings per share, because they are anti dilutive.

No shares have been issued in the period subsequent to 30 June 2016 and up to the date of this report.

DIRECTORS' DECLARATION

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

1. In the opinion of the Directors:
 - a. the financial statements, notes and the additional disclosures included in the Directors' Report designated as audited, 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 30 June 2016 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001;
 - b. the financial statements also comply with International Financial Reporting Standards as disclosed in note 2(b); and
 - c. subject to note 2(a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2016.

On behalf of the Board



Shaun Scott
Chairman
Perth, 18 August 2016

Independent auditor's report to the members of AnaeCo Limited

Report on the financial report

We have audited the accompanying financial report of AnaeCo Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit 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.

Opinion

In our opinion:

- a. the financial report of AnaeCo Limited is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(b).

Emphasis of matter

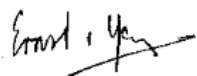
Without qualifying our opinion, we draw attention to note 2(a) in the financial report which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the remuneration report

We have audited the Remuneration Report included in pages 7 to 11 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of AnaeCo Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.



Ernst & Young



Robert A Kirkby
Partner
Perth
18 August 2016

Additional information required by ASX Listing Rule 4.10

The following is information required to be disclosed by ASX Listing Rule 4.10 which is not already disclosed elsewhere in the annual report. This information is current as of 31 July 2016.

Distribution schedule of the number of holders in each class of security:

Range of shares	Number of shareholders	Shares	% of issued capital
1 – 1,000	189	42,146	0.00
1,001 – 5,000	151	443,828	0.02
5,001 – 10,000	149	1,189,511	0.04
10,001 – 100,000	606	32,836,135	1.23
100,001 and over	1,385	2,638,286,948	98.71
Total	2,480	2,672,798,568	100.00

The number of holders holding less than a marketable parcel of ordinary shares at 31 July 2016 was 1,455.

Voting rights: On a show of hands, every member or proxy present may be entitled to one vote unless a poll is called in which case every share may have one vote, subject to any voting restrictions that may apply.

The details of the twenty largest holders of each class of quoted security:

Rank	Name	Shares	% interest
1	MONADELPHOUS GROUP LIMITED	390,142,118	14.60
2	THIRTY-FIFTH CELEBRATION PTY LTD	114,624,697	4.29
3	UBS NOMINEES PTY LTD	104,910,000	3.93
4	LIPPO SECURITIES LTD	78,159,247	2.92
5	FLOURISH HOLDINGS PTY LTD	75,172,405	2.81
6	NICHOL BAY HOLDINGS PTY LTD	48,295,357	1.81
7	SIRKNIGHT PTY LTD	40,675,000	1.52
8	BRINCLIFF PTY LTD	29,141,700	1.09
9	MR DAVID EDWARD TRIMBOLI	23,838,547	0.89
10	AVATAR INDUSTRIES PTY LTD	23,313,400	0.87
11	MR JOHN HERRMANN + MRS PAMELA MARY HERRMANN	20,265,399	0.76
12	CITICORP NOMINEES PTY LIMITED	18,947,382	0.71
13	R & P AUSTIN SUPERANNUATION PTY LTD	18,184,500	0.68
14	MR GLEN PAUL HEWITT	18,000,000	0.67
15	LEA FOX PTY LTD	17,530,000	0.66
16	CHEMCO SUPERANNUATION FUND PTY LTD	17,484,927	0.65
17	CLARK SUPERANNUATION FUND PTY LTD	15,000,000	0.56
18	J P MORGAN NOMINEES AUSTRALIA LIMITED	13,503,226	0.51
19	KABILA INVESTMENTS PTY LIMITED	13,369,790	0.50
20	MISS JAN-MAREE DONALD	13,000,000	0.49
	Total	1,093,557,695	40.92

The number of unquoted securities on issue and the number of holders is as follows:

Class of security	Number on issue	Number of holders
Unquoted incentive shares	13,833,330	19

There is no current on market buy-back.

Details of substantial shareholders:

Name of substantial shareholder	Shares in which there is a relevant interest
Monadelphous Group Limited	390,142,118
Gianmario Alessio Capelli	124,217,762