

8 September 2017

Ms A Sinniah
Senior Adviser, Listings Compliance (Perth)
ASX Compliance Pty Limited
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Dear Anjuli,

RE: AnaeCo Limited (AnaeCo or the Company)

We refer to your letter dated 4 September 2017 (**your letter**) and respond to your questions below. The numbering of our responses follows the numbering of the questions in your letter.

Unless expressed to the contrary, capitalised terms used in this letter have the same meaning given to those terms in your letter.

Throughout this letter **XEPT Transaction** means the purchase by Xiaoqing Environmental Protection Technology Co Ltd (**XEPT**) of the major portion of a loan owed by AnaeCo to Monadelphous Group Limited (**MND**) and the conversion of that loan, and the residual loan owed to Monadelphous, into equity, as is more fully described in the Notice of Extraordinary General Meeting (**Notice of EGM**) of AnaeCo shareholders dated 15 September 2016.

Responses to ASX questions

- 1) We confirm that, in the directors' opinion, the 2017 Annual Financial Report
 - a) complies with the relevant Accounting Standards, and
 - b) gives a true and fair view of the financial performance and financial position of the Company.
- 2) Not a question.
- 3) Not a question.
- 4) The directors consider the Company to be a going concern because:
 - a) whilst the Tripartite Deed of Sale and Cooperation remains current AnaeCo's funding requirements will be met through the MND loan facility;
 - b) whilst the Tripartite Deed of Sale and Cooperation remains current MND must not dispose or agree to dispose of its right, title or interest in the loan; take any enforcement action under the loan or security; or terminate, enforce or waive the terms of the loan or security, in each case without the prior written consent of XEPT;
 - c) pursuant to the terms of the Tripartite Deed of Sale and Cooperation, at completion all indebtedness to MND will either be converted to equity or forgiven, resulting in AnaeCo being debt free with free cash on hand of \$3.7 million; and
 - d) we have no evidence that either MND as Seller or XEPT as Buyer, does not intend to complete the transaction.

- 5) As at the date of this letter, the parties continue to work towards completion of the XEPT Transaction, with the only certain steps remaining under the Tripartite Deed of Sale and Cooperation, being:
- XEPT as Buyer satisfying regulatory requirements under MOFCOM's (Ministry of Commerce of the People's Republic of China) Administrative Measures for Overseas Investment (2014) and NDRC's (National Development and Reform Commission of the People's Republic of China) Administrative Measures for Verification and Registration on Overseas Projects, and
 - the parties proceeding to settlement.

Regarding the second part of question 5, the Company is not in a position to make 'anticipations' in respect of the activities of MND as Seller and XEPT as Buyer, being separate entities to AnaeCo, and in particular we do not speculate whether the XEPT Transaction will complete by 30 September.

- 6) Having taken advice from our legal advisers and the Independent Expert who prepared the Independent Expert's Report (**IER**) for the October 2016 shareholder meeting, the AnaeCo board does not intend to seek to refresh the shareholder approvals. The reasons for this approach are:
- a) there is no cut-off date for the approvals to remain valid;
 - b) other than extensions to the date for completion there have been no material changes or variations to the terms and conditions of the XEPT Transaction;
 - c) the underlying facts and circumstances surrounding the XEPT Transaction remain materially the same as they were in October 2016 other than the fact that AnaeCo's indebtedness to MND has increased; and
 - d) the terms and structure of the transaction mean that the increased indebtedness has no bearing on the debt to equity conversion and the outcome for non-associated shareholders. After consulting with the Independent Expert we have concluded that a further IER would not alter any of the opinions as to the fairness or reasonableness of the transaction relative to the original IER.

Given all of the above, and the Company's current financial circumstances, the Company considers the cost and expense of seeking to refresh the shareholder approvals would be a waste of shareholder funds and time.

- 7) If the XEPT Transaction completes AnaeCo will not need to undertake a capital raising in the short term because AnaeCo will be debt free and will have \$3.7 million in free cash which should be sufficient to meet the Company's business objectives for the succeeding 12 months.
- 8) If the XEPT Transaction is terminated AnaeCo's ability to remain a viable business and a going concern will be dependent on the continued support of MND as secured lender.
- 9) Completion of the XEPT Transaction is expected to have significant consequences for the Company's ability to commercialise its intellectual property and generate future sales. Precisely how AnaeCo and XEPT will collaborate on business development, marketing and execution of work has yet to be settled, but we expect there to be substantial interaction between the two organisations. In the Australian market AnaeCo continues to seek out opportunities to provide project and engineering solutions to the solid waste industry, leveraging off our technical expertise and experience in completing the Shenton Park AWT Plant.

- 10) This development expenditure is being amortised over a 10 year period and will be fully amortised by 2020. The development expenditure should be recovered by commercialisation of the intellectual property over this term, subject of course to the annual impairment review in accordance with the accounting policies.

We note that the auditor's statement regarding being unable to obtain sufficient audit evidence regarding recovery of this intangible asset (being a non-current asset) is an extension of its conclusion regarding whether the Company is a going concern. In future reporting periods it will be AnaeCo's intention to demonstrate to the auditor that it is a going concern.

- 11) The receivable of \$400,000 is due from XEPT for design engineering services performed during May and June 2017 pursuant to a separate agreement. If the XEPT Transaction does not complete this receivable may need to be provided for as a doubtful debt.
- 12) AnaeCo fully appreciates that its financial condition is heavily dependent on the outcome of the XEPT Transaction. In the absence of evidence to the contrary we consider it reasonable and appropriate to present the financial statements on the basis that we expect the transaction to proceed (subject to completion of the remaining steps noted in our response to question 5). We have made every effort to ensure that our shareholders and the market in general has access to information to properly understand the XEPT Transaction, including the risks and consequences of the transaction failing to proceed. Given the adequacy of the disclosure we see no reason why users of this information should be prevented from making their own investment or divestment decisions regarding a shareholding in AnaeCo.
- 13) Not applicable.
- 14) We shall endeavour to execute all of our business objectives, commercialise our intellectual property and win revenue generating business to become cash flow positive.
- 15) We confirm that the Company is in compliance with the Listing Rules and, in particular Listing Rule 3.1.

Yours sincerely



David Lymburn
Managing Director



4 September 2017

Mr David Lymburn
Managing Director
Anaeco Limited
3 Turner Avenue
BENTLEY WA 6102

By email: dlymburn@anaeco.com

Dear Mr Lymburn

ANAECO LIMITED (the “Company”)

ASX Limited (“ASX”) refers to the following.

1. The Company’s financial statements for the Year ended 30 June 2017, released to the market on 30 August 2017 (the “2017 Annual Report”).
2. The Independent Auditor’s Report on pages 47-49 of the Accounts (“Auditor’s Report”) which includes the following Disclaimer of Opinion (“2017 Disclaimer of Opinion”):

“Disclaimer of opinion

We were engaged to audit the financial report of AnaeCo Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration. We do not express an opinion on the accompanying financial report of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this financial report.

Basis for Disclaimer of review conclusion:

We draw attention to Note 2(a) in the financial report which indicates that the Group incurred losses of \$5,824,167 during the year ended 30 June 2017 and at that date, its current liabilities exceeded its current assets by \$20,259,885. As at the date of this report, we have been unable to obtain evidence which would provide sufficient appropriate audit evidence as to whether the Group can achieve the



matters disclosed in Note 2(a) and hence remove significant doubt as to its ability to continue as a going concern within 12 months of the date of this auditor's report.

As set out in Note 10, the Group has recognized development expenditure, amounting to \$1,600,942 in the statement of financial position. As a consequence of the matters set out in the preceding paragraph, we are unable to obtain sufficient appropriate audit evidence to assess the Group's ability to fully recover this development expenditure.

As set out in Note 7, the Group has recognised a receivable for the provision of engineering and design services, amounting to \$400,000 in the statement of financial position. As at the date of this report, we have been unable to obtain sufficient appropriate audit evidence as to whether the Group will fully recover the receivable".

3. The Company's financial position over the last 3 full financial years can be summarised as follows:

| | 30 June 2015 | 30 June 2016 | 30 June 2017 |
|---------------------------------|---------------|----------------|----------------|
| Total Assets | \$9,167,300 | \$9,765,304 | \$3,657,051 |
| Total Liabilities | \$14,732,599 | \$22,477,960 | \$21,819,285 |
| Net (Liabilities)/Assets | (\$5,565,299) | (\$12,712,656) | (\$18,514,657) |
| Current Assets Deficit | (\$9,145,947) | (\$15,346,966) | (\$20,259,885) |

Monadelphous Funding Facility

4. On 25 September 2012, the Company entered into a loan agreement whereby Monadelphous Group Limited ("Monadelphous") agreed to lend the Company \$2,000,000 and a general security agreement ("General Security Agreement")(collectively referred to as "MND Funding Facility"). The General Security Agreement granted a Personal Properties and Securities Act interest over all PPSA personal property and a fixed charge over all other property.
5. On 18 December 2014, the Company extended the Loan Agreement whereby Monadelphous agreed to further advance \$1,000,000 in 2 instalments to the Company ("Supplemental Loan Agreement").
6. On 5 February 2015, the Company and Monadelphous signed a term sheet offer for a \$1,000,000 advance and a further facility of \$3,600,000 ("5 February Term Sheet Offer"). Total borrowings of this advance and the September 2012 facility amounted to \$7,600,000.



7. On 3 June 2015, the Company and Monadelphous entered into a term sheet offer for \$2,000,000, increasing the MND Funding Facility amount to \$9,600,000 ("3 June Term Sheet Offer"). All money drawn under this offer is subject to the same terms and conditions as the Supplemental Loan Agreement.
8. On 11 August 2015, the Company and Monadelphous entered into a term sheet offer for \$500,000, increasing the total loan facility amount to \$10,100,000 (11 August Term Sheet Offer"). All money drawn under this offer is subject to the same terms and conditions as the Supplemental Loan Agreement.
9. On 16 October 2015, the Company and Monadelphous entered into a term sheet offer for \$3,500,000, increasing the total loan facility amount to \$13,600,000 ("16 October Term Sheet Offer"). All money drawn under this offer is subject to the same terms and conditions as the Supplemental Loan Agreement.
10. On 23 December 2015, the Company released an announcement disclosing that Monadelphous and the Company had agreed the repayment date and termination of the MND Funding Facility be extended until 15 April 2016.
11. On 18 April 2016, the Company released an announcement disclosing that Monadelphous and the Company had agreed that the repayment date and termination of the MND Funding Facility be extended from 15 April 2016 to 30 June 2016.

XEPTC Transaction

12. On 2 September 2015, the Company announced that due diligence had commenced in relation to a potential transaction involving a Chinese Company (now known to be Xiaoqing Environmental Protection Technology Co Ltd ("XEPTC") purchasing the major portion of MND Funding Facility owing by the Company to Monadelphous ("XEPTC Transaction").
13. On 20 October 2015, ASX sent the Company a query in relation to the auditor's disclaimer of opinion regarding the Company's ability to continue as a going concern in the Company's audited financial statements for the year ended 30 June 2015 ("2015 Annual Report"). The Company responded on 27 October 2015 and the response was released on 30 October 2015 ("30 June 2015 Financial Condition Query"). In response to ASX's query regarding any plans the Company has to raise additional funds, the Company responded that the timing, method and amount of a capital raising will be decided pending the outcome of the XEPTC Transaction.
14. On 1 April 2016, ASX sent the Company a query in relation to the auditor's disclaimer of opinion regarding the Company's ability to continue as a going concern contained in the Company's financial statements for the half year ended 31 December 2015 ("2015 Half Year Report"). The Company



responded on 6 April 2016 and the response was released on 6 April 2016 (“31 December 2015 Financial Condition Query”). In response to ASX’s query regarding any plans the Company has to raise additional funds, the Company responded that the timing, method and amount of a capital raising will be decided pending the outcome of the XEPTC Transaction.

15. On 5 August 2016, the Company released an announcement disclosing Monadelphous and XEPTC entered into a binding agreement which would result in XEPTC buying \$11,500,000 of the MND Funding Facility and the remaining balance will convert into equity in the Company (resulting in MND holding approximately 30% of the Company). The \$11,500,000 owed to XEPTC will convert into equity in the Company (resulting in XEPTC holding 55% of the issued capital of the Company).
16. On 17 October 2016, the Company obtained shareholder approval pursuant to section 611 (item 7) of the Corporations Act to issue up to 4,151,515,217 shares to Monadelphous on conversion of the MND Funding Facility and to issue up to 8,333,333,333 shares to XEPTC on conversion of the portion of the MND Funding Facility purchased from Monadelphous. An independent expert’s report (“IER”) was prepared based on the information and set of circumstances at that time and annexed to the notice of meeting.
17. On 8 December 2016, the Company released an announcement disclosing that completion of the XEPTC Transaction was due to occur on 30 November 2016 and was delayed until 31 December 2016.
18. On 3 January 2017, the Company released an announcement disclosing that completion of the XEPTC Transaction was delayed until 31 March 2017.
19. On 3 April 2017, the Company released an announcement disclosing that completion of the XEPTC Transaction would not occur on 31 March 2017 and that all parties were negotiating a further extension for completion.
20. On 18 April 2017, the Company released an announcement disclosing that the completion date for the XEPTC Transaction was extended to 15 July 2017.
21. On 17 July 2017, the Company released an announcement disclosing that completion of the XEPTC Transaction did not occur on 15 July 2017 and a further extension was being negotiated between the parties.
22. On 31 July 2017, the Company released an announcement disclosing that a completion date could not be agreed between the parties and negotiations were continuing.
23. On 15 August 2017, the Company released an announcement disclosing that completion of the XEPTC Transaction is to occur on 30 September 2017, being approximately 11 months since shareholder approval was obtained on 17 October 2016 (and the IER was prepared and provided to shareholders).



Relevant Listing Rules and Guidance

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

Questions for Response

In light of the Auditor's Report, the information contained in the 2017 Annual Report, and the application of the Listing Rules stated above, please note the following and respond to the relevant questions.

1. Is the Company able to confirm that, in the directors' opinion, the 2017 Annual Report:
 - (a) complies with the relevant Accounting Standards; and
 - (b) gives a true and fair view of the financial performance and financial position of the Company?

2. The Company has stated in Note 2(a) that:

"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:

- *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 pursuant to completion of the XEPT transaction;*
- *Success with commercialising its AnaeCo technology and generating future sales to enable the Group to generate profit and positive cash flows;*
- *Obtain additional funding as and when required.*

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 liabilities in the normal course of business and at the amounts stated in the financial report".

3. The auditor's opinion states as follows:

"As at the date of this report, we have been unable to obtain evidence which would provide sufficient appropriate audit evidence as to whether the Group can achieve the matters disclosed in Note 2(a) and hence remove significant doubt as to its ability to continue as a going concern within 12 months of the date of this auditor's report".



4. Given the auditor has been unable to obtain sufficient and appropriate audit evidence whether the Group can continue as a going concern and achieve the matters disclosed in Note 2(a), and given the delays in completion of the XEPTC Transaction, on what basis do the directors consider the Company is a going concern?
5. Noting the numerous extensions to the completion date of the XEPTC Transaction described in paragraphs 17-23 above, what is the current status of the XEPTC Transaction? Does the Company anticipate completion will occur in 30 September 2017 or will a further extension be required?
6. Please comment specifically on the validity of the shareholder approval obtained on 17 October 2016 and the accompanying IER, noting specifically that the information, circumstances and material assumptions relied upon in preparing the IER would now be approximately 11 months old. Does the Company intend to refresh the shareholder approval and update the IER to issue the conversion securities to effect completion of the XEPTC Transaction? If not, please explain why.
7. What steps does the Company intend to take to obtain additional funding, noting the Company has previously indicated that any capital raising is contingent upon the completion of the XEPTC Transaction?
8. What steps does the Company have in place to meet its current liabilities in the event the XEPTC Transaction is terminated, noting the increase in the Company's net liabilities over the last 3 financial years as described in paragraph 3 above and as at 30 June 2017, its current liabilities exceeded its current assets by \$20,259,885?
9. What steps does the Company intend to take to successfully commercialise its AnaeCo technology and generate future sales to enable the Group to generate profit and positive cash flows, noting specifically the Company has estimated cash flows of \$560,000 on research and development, advertising and marketing and staff costs for the next quarter?
10. The auditor states that *"as set out in note 10, the Group has recognised development expenditure amounting to \$1,600,942 in the statement of financial position. As a consequence of the matters set out in the preceding paragraphs [of the basis for disclaimer of opinion] we are unable to obtain sufficient appropriate audit evidence to assess the Group's ability to fully recover this development expenditure"*. What is the Company's ability to fully recover this development expenditure? What steps does the Company intend to take to ensure in future periods it can provide the auditor with sufficient and appropriate audit evidence in relation to the Group's ability to recover this development expenditure?
11. The auditor states that *"as set out in Note 7, the Group has recognised a receivable for the provision of engineering and design services, amounting to \$400,000 in the statement of financial position. As at the date of this report, we have been unable to obtain sufficient appropriate audit evidence as to whether the Group will fully recover the receivable"*. What is the Company's ability to fully recover this



receivable? What steps does the Company intend to take to ensure in future periods it can provide the auditor with sufficient and appropriate audit evidence in relation to the Group's ability to recover this receivable?

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

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

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by **no later than 3.00pm WST on Friday 8 September 2017**. If the information is required immediately under Listing Rule 3.1, you should discuss with ASX whether it is appropriate to request a trading halt in the Company's securities under Listing Rule 17.1.

Any response should be sent to me by return email to anjuli.sinniah@asx.com.au and tradinghaltspert@asx.com.au. It should not be sent to the ASX Market Announcements Office.

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

Yours sincerely,

[sent electronically without signature]

Anjuli Sinniah
Senior Adviser, Listings Compliance (Perth)