AnaeCo Limited

Appendix 4D and financial report

for the half-year ended 31 December 2014

The reporting period is the six months ended 31 December 2014 and the previous corresponding period is the six months ended 31 December 2013. The comparative balance sheet is as at 30 June 2014. This Appendix 4D should be read in conjunction with the financial report for the year ended 30 June 2014 and considered together with any public announcements made by the Company during the six months ended 31 December 2014 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

				6 months Ended 31 Dec 2014
Financial Results		**$'000**		**$'000**
Revenue from ordinary activities	down from	90	to	17
Loss from ordinary activities after tax attributable to members	up	19%	to	(2,629)
Loss for the period attributable to members	up	19%	to	(2,629)

Dividends
No dividends were paid during the period.
The Company does not propose to pay a dividend in respect of the half year ended 31 December 2014.
There is no dividend reinvestment plan.

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

Net Tangible Asset Backing	**31 December 2014**	**31 December 2013**
Net tangible asset backing per ordinary security (cents)	(0.19)	0.01

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

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

ANAECO LIMITED

and controlled entities

ABN 36 087 244 228

FINANCIAL REPORT

For the half-year ended

31 DECEMBER 2014

ABN 36 087 244 228

Directors

Mr Shaun Scott (Non-executive Chairman)

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

Mr David Lymburn (Managing Director and CEO)

Company Secretaries

Mr David Lymburn

Mr Tim Hinton

Registered office and principal place of business

3 Turner Avenue

Technology Park

Bentley, WA 6102

Share Register

Computershare Investor Services

Level 2, Reserve Bank Building

45 St Georges Terrace

Perth WA 6000

Auditors

Ernst & Young

11 Mounts Bay Road

Perth WA 6000

Your directors submit their report on AnaeCo Limited and its controlled entities ("the Group") for the six months ended 31 December 2014.

DIRECTORS

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

Shaun Scott - Non-executive Chairman

Les Capelli - Non-executive Director

David Lymburn - Managing Director & CEO

REVIEW AND RESULTS OF OPERATIONS

The net loss after tax of the Group for the six month period was $2,628,881 (2013: loss $2,209,678).

Review of Operations

Commercialisation of AnaeCo™ System

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

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

Construction completion was achieved in September 2013 and in October 2013 wet commissioning commenced with the introduction of MSW to the Material Recovery Facility (MRF). Wet commissioning of the Bioconversion Facility (BCF) commenced with aerobic activity in March 2014 and by June 2014 anaerobic activity was underway. Biological ramp-up commenced in June 2014 and continued throughout the half year period. Biological Ramp-up is the phase in commissioning operations whereby the stock of anaerobic process water containing the bacterial inoculum that performs anaerobic digestion is expanded to a full facility level of 1,500m^3.

The AnaeCo™ System core technology performance objectives which have been confirmed to date in commissioning include:

- the Wet Density Separation System (WDS) removing up to 99% of the glass and grit present in the post-trommelled fraction of MSW,
- production of organic feedstock in the MRF for input to bioconversion,
- management of the bioconversion transition phases from aerobic to anaerobic activity, and vice-versa, all controlled by the Distributed Control System,
- production of biogas and organic fertiliser from bioconversion activity, and
- management of anaerobic process water.

There have been some setbacks and significant delays in achieving these objectives due mainly to a series of mechanical equipment and process water storage tank defects. These delays have been reported since August 2014 and are now almost completely rectified. All up, the ramp-up programme has suffered approximately six months of delays as a result of these defects. None of these defects signify a fundamental issue with AnaeCo's technology.

At the date of this report Biological Ramp-up is still in progress and is forecast to be completed within a few months. Once completed the plant will undergo a series of performance trials, and once successful will be awarded a certificate of completion.

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

Achieving meaningful progress with all of these commercialisation opportunities is highly dependent on completing the remainder of commissioning of the WMRC Project successfully.

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 twelve inventions protected by patents, or 'patent families'. In addition there are two inventions at the 'provisional patent' stage.

The first two patent families, covering the DiCOM™ Bioconversion Process and Pressure Aeration System, were registered in 1999 and 2000 respectively. AnaeCo holds nine granted national patents (Australia, United States, Canada, China and Japan) and has patents pending in the EU for these two inventions.

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

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

Summary of patents at various stages:

- Provisional patent applications: 2
- PCT application under examination: 1
- National patent applications for registration: 67
- National patents granted: 12
- Total international patents and patent applications: 82

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

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

Review of Financial Performance

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

The Group was successful in obtaining $4,590,098 in R&D Tax Incentive Government grant funding relating to the 2014 income tax year, which was received in the period. This successful R&D Tax Incentive claim was based on the eligibility of the research and development expenditure on the AnaeCo™ System, which includes the demonstration of the technology at the WMRC Project.

At 31 December 2014, the Group had cash reserves of $437,352 and net current liabilities of $4,650,138.

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

Subsequent events
During February 2015 the Group entered into a funding agreement to borrow $4.6 million from Monadelphous Group Limited. The loan is secured by a first ranking charge over the Company's assets and undertakings, bears interest at 12% p.a. and is due for repayment at the earlier of 31 December 2015 or the date upon which

AnaeCo receives a tax refund for eligible R&D expenditure incurred in relation to the 2015 income tax year.

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

Auditor's Independence Declaration

The auditor's independence declaration for the six months ended 31 December 2014 has been received and is included at page 5 and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors.

Shaun Scott

Chairman

Perth, 27 February 2015

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
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Auditor's Independence Declaration to the Directors of AnaeCo Limited

In relation to our review of the financial report of AnaeCo Limited for the half-year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

G Lotter
Partner
Perth
27 February 2015

GL:DR:ANAECO:049

AnaeCo Limited

Statement of Comprehensive Income

For the six months ended 31 December 2014

	Notes	Consolidated 6 months 31 Dec 2014 $	Consolidated 6 months 31 Dec 2013 $
Revenues	3(a)	16,820	89,755
Other income	3(b)	2,059,090	3,748,364
Project delivery costs	4(a)	(2,924,358)	(4,050,686)
Technology development expense	4(b)	(178,295)	(95,973)
Depreciation and amortisation		(461,687)	(439,017)
Finance costs	4(c)	(181,737)	(5,214)
Employee benefits expense	4(d)	(108,726)	(960,429)
Other expenses	4(e)	(849,988)	(496,478)
Loss before income tax expense		(2,628,881)	(2,209,678)
Income tax (expense)/benefit		-	-
Net loss after tax and total comprehensive loss for the period attributable to members of AnaeCo Limited		(2,628,881)	(2,209,678)
Loss per share attributable to ordinary equity holders of the company			
Loss per share (cents)		(0.10)	(0.12)
Diluted loss per share (cents)		(0.10)	(0.12)

The accompanying notes form part of these financial statements

AnaeCo Limited
Statement of Financial Position

As at 31 December 2014

	Notes	Consolidated 31 December 2014 $	Consolidated 30 June 2014 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		437,352	1,641,915
Trade and other receivables	5	2,167,772	4,721,715
Other		4,083	21,951
TOTAL CURRENT ASSETS		2,609,207	6,385,581
NON-CURRENT ASSETS			
Property, plant & equipment		53,702	78,772
Intangible assets		4,124,224	4,559,383
TOTAL NON-CURRENT ASSETS		4,177,926	4,638,155
TOTAL ASSETS		6,787,133	11,023,736
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		798,538	1,590,357
Provision for loss on engineering services contract	6	3,423,743	5,134,001
Interest bearing loans and borrowings	7	2,755,128	2,120,000
Provisions		281,936	255,402
TOTAL CURRENT LIABILITIES		7,259,345	9,099,760
NON CURRENT LIABILITIES			
Provisions		255,495	254,220
TOTAL NON CURRENT LIABILITIES		255,495	254,220
TOTAL LIABILITIES		7,514,840	9,353,980
NET (LIABILITIES)/ASSETS		(727,707)	1,669,756
EQUITY			
Contributed equity	8	67,968,586	67,757,640
Reserves		1,083,816	1,063,344
Accumulated losses		(69,780,109)	(67,151,228)
TOTAL (SHAREHOLDERS' DEFICIT)/EQUITY		(727,707)	1,669,756

The accompanying notes form part of these financial statements

Consolidated Statement of Cash Flows

For the six months ended 31 December 2014

	6 months 31 Dec 2014 $	6 months 31 Dec 2013 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(6,286,889)	(4,833,332)
Government grant – R&D Tax Incentive	4,590,098	7,050,430
GST received	23,478	346,630
Interest received	16,820	89,755
Interest paid	(46,609)	(5,215)
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	(1,703,102)	2,648,268
CASH FLOWS FROM INVESTING ACTIVITIES		
Government grant – R&D Tax Incentive	-	998,163
Purchases of computer software classified as intangible assets	-	(44,602)
Purchase of property, plant and equipment	(1,461)	(56,618)
NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES	(1,461)	896,943
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	3,049,000	-
Repayment of borrowings	(2,549,000)	-
Repayment of finance leases or hire purchase	-	(3,277)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	500,000	(3,277)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS HELD	(1,204,563)	3,541,934
Cash and cash equivalents at beginning of period	1,641,915	7,136,349
Cash and cash equivalents at end of period	437,352	10,678,283

The accompanying notes form part of these financial statements

AnaeCo Limited

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2014	Issued capital $	Accumulated losses $	Employee benefits equity reserve $	Total equity $
At the beginning of the half year	67,757,640	(67,151,228)	1,063,344	1,669,756
Loss for the period	-	(2,628,881)	-	(2,628,881)
Total comprehensive loss for the period	-	(2,628,881)	-	(2,628,881)
Transactions with owners in their capacity as owners				
Issue of share capital	151,000	-	-	151,000
Issue of share capital for employee share bonus scheme	59,946	-	(59,946)	-
Share based payments	-	-	80,418	80,418
At the end of the half year	67,968,586	(69,780,109)	1,083,816	(727,707)

The accompanying notes form part of these financial statements

AnaeCo Limited

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2013	Issued capital $	Accumulated losses $	Employee benefits equity reserve $	Total equity $
At the beginning of the half year	67,481,050	(61,508,073)	1,120,474	7,093,451
Loss for the period	-	(2,209,678)	-	(2,209,678)
Total comprehensive loss for the period	-	(2,209,678)	-	(2,209,678)
Transactions with owners in their capacity as owners				
Issue of share capital	23,750	-	-	23,750
Issue of share capital for employee share bonus scheme	214,737	-	(214,737)	-
Share based payments	-	-	101,496	101,496
At the end of the half year	67,719,537	(63,717,751)	1,007,233	5,009,019

The accompanying notes form part of these financial statements

1. CORPORATE INFORMATION

The half year condensed consolidated financial report of AnaeCo Limited and its controlled entities ("the Group") for the six months ended 31 December 2014 ("the half-year financial report") was authorised for issue in accordance with a resolution of the directors on 27 February 2015.
AnaeCo Limited is a for profit company incorporated and domiciled in Australia and limited by shares which are traded on the Australian Securities Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

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

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

The half-year financial report should be read in conjunction with the annual financial report of AnaeCo Limited as at 30 June 2014 and considered together with any public announcements made by the company during the six months ended 31 December 2014 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

Going Concern

The Group has net liabilities of $727,707 (30 June 2014, net assets of $1,669,756), net current liabilities of $4,650,138 (30 June 2014, net current liabilities of $2,714,179), a net decrease in cash and cash equivalents of $1,204,563 and incurred a net loss after income tax of $2,628,881 (six months ended 31 December 2013, loss of $2,209,678) for the six months ended 31 December 2014. As at 31 December 2014, the Group does not presently have sufficient funds to meet all of its expenditure commitments for the next 12 months.

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

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

- As a Group listed on the Australian Securities Exchange it has access to the Australian equity capital markets. Accordingly, the Group considers it maintains a reasonable expectation of being able to raise funding from the market as and when required, although it cannot determine in advance the terms upon which it may raise such funding.
- The Group is achieving its key milestones with respect to commercialising the AnaeCo™ System and specifically with respect to the application of the AnaeCo™ System at the WMRC Project. This progress results in steady interest in the Group's technology from other prospective customers and accordingly the Group has a pipeline of business development opportunities. This provides confidence for the Group's prospects of generating positive cash flow from operations in the future.
- AnaeCo Limited will be submitting a claim for the Research & Development Tax Incentive in respect of the 2015 tax year. The Company is satisfied that it meets, and will continue to meet, 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 2015 year is estimated to be $7,000,000 of which $4,575,755 has been incurred at 31 December 2014. If approved the amount of eligible expenditure

estimated for the full 2015 income year would lead to a cash refund of $3,150,000, of which $2,059,090 has been recognised in the half year financial report, refer Note 3(b).

The benefit of this 2015 Research & Development Tax Incentive claim will not be available until after the 2015 income tax return has been lodged and assessed.

- The Company has entered into a Supplemental Loan Agreement with Monadelphous Group Limited to provide additional funding of $4,600,000. An initial draw-down was made in February 2015 and the full amount of this loan is forecast to be drawn by 31 July 2014. By that date the forecast total borrowings (excluding interest) owing to Monadelphous Group Limited is estimated to be $7,600,000.

  The Supplemental Loan Agreement provides for full repayment of all borrowings at the earlier of 31 December 2015 or the date upon which AnaeCo receives a tax refund for eligible R&D expenditure incurred in relation to the 2015 income tax year.

  The terms of the borrowings from Monadelphous Group Limited provide for all or part of the debt to be repaid by conversion to equity, at the lender's election. Such a conversion will require approval under ASX listing Rules, including shareholder approval. The terms of conversion have not been prescribed and if this mechanism is applied it will be based on a volume weighted average share price of AnaeCo Limited shares for a period of time prior to a vote to grant shareholder approval.

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

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

- success with commercialising its AnaeCo™ technology and generating future sales to enable the Group to generate profit and positive cash flows;
- obtaining additional funding as and when required to meet its expenditure commitments; and
- receiving continued support from shareholders and creditors.

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

b. Significant accounting policies

Except as disclosed below, the half-year financial report has been prepared using the same accounting policies and methods of computation as used in the annual financial statements for the year ended 30 June 2014. Where necessary, comparatives have been reclassified and repositioned for consistency with current disclosures.

c. New and amended accounting standards and interpretations

Since 1 July 2014, the Group has adopted all Accounting Standards and Interpretations, mandatory for annual periods beginning on 1 July 2014, including:

Ref	Title	Summary
AASB 2012-3	Amendments to Australian Accounting Standards - *Offsetting Financial Assets and Financial Liabilities*	AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.
AASB 2013-3	Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets	AASB 2013-3 amends the disclosure requirements in AASB 136 *Impairment of Assets*. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.
AASB 2014-1 Part A - Annual Improvements 2010–2012 Cycle	Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRSs 2010–2012 Cycle	AASB 2014-1 Part A: This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) *Annual Improvements to IFRSs 2010–2012 Cycle.* Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items: ► AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'. ► AASB 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137. ► AASB 116 & AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.

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

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

	6 Months Ended 31 December 2014 $	6 Months Ended 31 December 2013 $
3. REVENUE		
(a) **Revenue**		
Interest received	16,820	89,755
(b) **Other income**		
Government grant – R&D Tax Incentive 2013 tax year (i)	-	2,216,233
Government grant – R&D Tax Incentive 2014 tax year (ii)	-	1,532,131
Government grant – R&D Tax Incentive 2015 tax year (iii)	2,059,090	-
	2,059,090	3,748,364

(i) The R&D Tax Incentive received for the 2013 tax year was $8,048,593. $7,050,430 was recognised in the Statement of Comprehensive Income as Other Income (30 June 2013: $4,834,197, 31 December 2013: $2,216,233), and $998,163 was recognised in the Statement of Financial Position as at 30 June 2013 as an offset against capitalised technology expenditure.

(ii) The R&D Tax Incentive recognised for the 2014 tax year is $1,532,131 which has been recognised in the Statement of Comprehensive Income as Other Income

(iii) The R&D Tax Incentive recognised for the 2015 tax year is $2,059,090 which has been recognised in the Statement of Comprehensive Income as Other Income

	6 Months Ended 31 December 2014 $	6 Months Ended 31 December 2013 $
4. EXPENSES		
(a) **Project delivery costs**		
Movement in provision for costs to complete	2,866,689	4,027,566
Cost of labour for engineering services	57,669	23,120
	2,924,358	4,050,686
(b) **Technology development expense**		
Expenditure on technology development	178,295	95,973
(c) **Finance costs**		
Interest paid to other parties arising on finance leases and hire purchase contracts	3,504	5,214
Interest expense on loans from others	178,233	-
	181,737	5,214
(d) **Employee benefits expense**		
Wages and salaries	2,480,070	1,707,333
Superannuation expense	245,540	196,822
Less: labour costs allocated to provision for loss on engineering services contract and technology development expense	(2,764,265)	(1,144,295)
Non-executive directors remuneration	66,963	99,073
Share based payments expense	80,418	101,496
	108,726	960,429

	6 Months Ended 31 December 2014 $	6 Months Ended 31 December 2013 $
4. EXPENSES (continued)		
(e) **Other expenses**		
Premises and related expenses	165,937	171,990
Consultants	384,753	56,367
Travel	36,447	24,998
Other	262,851	243,123
	849,988	496,478

	31 December 2014 $	30 June 2014 $
5. TRADE AND OTHER RECEIVABLES		
Trade receivables	-	319
R&D tax incentive receivable	2,059,090	4,590,098
Other receivables	108,682	131,298
	2,167,772	4,721,715
6. PROVISION FOR LOSS ON ENGINEERING SERVICES CONTRACT		
Current	3,423,743	5,134,001
Movement in provision for loss on engineering services contract:		
At beginning of the period	5,134,001	5,023,050
Project expenditure applied against the provision	(4,576,947)	(5,023,050)
Provision arising in the period	2,866,689	5,134,001
At the end of the period	3,423,743	5,134,001

The provision for costs to complete at 31 December 2014 is included in the expected losses on the engineering services contract that have been recognised in the current year as it is considered probable that the total contract cost will exceed the total contract revenue.

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

Completion of the WMRC project is not estimated to occur until the middle of calendar year 2015.

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

There are no commitments or contingencies relating to the joint operation as at 31 December 2014, (30 June 2014: nil).

	31 December 2014 $	30 June 2014 $
7. INTEREST BEARING LOANS AND BORROWINGS		
Other loan - secured	2,755,128	2,120,000

This loan is repayable in full at the earlier of 31 December 2015 or the date upon which AnaeCo receives a tax refund for eligible R&D expenditure incurred in relation to the 2015 income tax year, the interest rate is 12% and is secured by a PPSA security interest over all PPSA personal property and a fixed charge over all other property.

8. CONTRIBUTED EQUITY

	31 December 2014 $	30 June 2014 $
Issued Capital	71,666,593	71,365,647
Costs of capital raising	(2,964,007)	(2,964,007)
49,291,668 (June 2014: 41,791,668) Reserved shares[(1)]	(734,000)	(644,000)
	67,968,586	67,757,640

Movements in ordinary fully paid shares	Date	Shares	$
Balance at 30 June 2013		2,486,369,732	71,078,557
Discretionary bonus	Jul ‘13	13,637,255	115,917
Employee share incentive (LTI)	Sep ‘13	8,000,000	-
Employee share bonus (2013 STI)	Sep ‘13	11,642,897	98,820
Employee share incentive (LTI)	Nov ‘13	25,500,000	306,000
LTI shares	May ‘14	750,000	(13,897)
LTI shares cancelled	May ‘14	(14,458,332)	(258,000)
Shares for services rendered	Jul ‘13 - Jun ‘14	2,884,381	38,250
Balance at 30 June 2014		2,534,325,933	71,365,647
Employee share bonus (2014 STI)[(2)]	Sep ‘14	8,861,607	59,946
Employee share incentive (LTI)	Dec ‘14	7,500,000	90,000
Shares for services rendered[(3)]	Jul - Dec ‘14	23,553,846	151,000
Balance at 31 December 2014		**2,574,241,386**	**71,666,593**

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

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

[(2)] Employee (STI) bonuses recognised during the year ended 30 June 2014 and issued during the period.

[(3)] Third party suppliers provided goods and services in exchange for shares. The fair value of the goods and services supplied was determined with reference to their market value.

Long Term Incentive (LTI) shares

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

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

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

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

During the half year the Company issued 7,500,000 LTI rights to employees at $0.012 per share. The number of LTI shares allotted was determined by the Board, and in doing so consideration was taken of the potential incentive amount relative to the employees' total remuneration package.

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:	31 December 2014 LTI Rights	30 June 2014 LTI Rights
Balance at beginning of the period/year	41,791,668	31,500,000
Issued	7,500,000	25,500,000
Cancelled	-	(14,458,332)
Exercised	-	(750,000)
Closing balance at the end of the period/year	49,291,668	41,791,668

A summary of the key assumptions used in applying the Black Scholes model to the LTI rights granted in the period 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)	Dividend yield	Valuation per right
5 December 2014	$0.004	95%	3%	70	0%	$0.004

The valuation of LTI rights granted during the half year 2014, and the years in which the expense has been, and will be, recognised in the accounts is as follows:

Year ending 30 June in which vesting and expense occurs:	Valuation of LTI rights granted as at 31 December 2014	Valuation of LTI rights granted as at 30 June 2014
2014	-	110,781
2015	155,783	149,949
2016	137,198	127,198
2017	30,444	20,444
2018	4,167	-
Total valuation of LTI rights granted in period/year	327,592	408,372

9. DIVIDENDS

No dividends were paid or proposed during the 6 months ended 31 December 2014.

10. COMMITMENTS AND CONTINGENCIES

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

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

11. SEGMENT REPORTING

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

12. EVENTS AFTER BALANCE DATE

During February 2015 the Group entered into a funding agreement to borrow $4.6 million from Monadelphous Group Limited. The loan is secured by a first ranking charge over the Company's assets and undertakings, bears interest at 12% p.a. and is due for repayment at the earlier of 31 December 2015 or the date upon which AnaeCo receives a tax refund for eligible R&D expenditure incurred in relation to the 2015 income tax year.

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

13. FINANCIAL INSTRUMENTS

At 31 December 2014, the carrying value of the financial assets and liabilities approximate their fair values.

AnaeCo Limited

Directors' Declaration

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

In the opinion of the directors:

(a) the financial statements and notes of the Group are in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the six months ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) subject to the matters referred to in note 2 to the financial statements, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Shaun Scott

Chairman

Perth, 27 February 2015

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To the members of AnaeCo Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of AnaeCo Limited, which comprises the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of AnaeCo Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Basis for Disclaimer of Conclusion

We draw attention to Note 2(a) in the financial report which indicates that the consolidated entity incurred losses of $2,628,881 during the half-year ended 31 December 2014 and at that date its current liabilities exceeded its current assets by $4,650,138. As at the date of this report, the consolidated entity has limited cash available and has not secured sufficient additional funding to be able to fulfil future committed operational expenditure. We have been unable to obtain sufficient appropriate evidence as to whether the consolidated entity can achieve the matters disclosed in Note 2(a) and hence remove significant doubt of its ability to continue as a going concern within 12 months of the date of this auditor's review report.

The consolidated entity has recognised development expenditure, amounting to $3,644,492, in the consolidated statement of financial position. As a consequence of the matters set out in the preceding paragraph, we are unable to obtain sufficient appropriate evidence to assess the consolidated entity's ability to fully recovery this development expenditure.

As set out in Note 6, the consolidated entity has recognised a provision to complete the WMRC Project, amounting to $3,423,743, in the statement of financial position. Due to the complex nature and level of uncertainty related to this project, we are unable to obtain sufficient appropriate evidence to assess the adequacy of the cost to complete the WMRC Project.

Disclaimer of Conclusion

Because of the significance of the matters described in the Basis for Disclaimer of Conclusion paragraphs, for which we have been unable to obtain sufficient appropriate evidence to provide a basis for a review conclusion, we do not express a conclusion on the financial report for the half-year ended 31 December 2014.

Ernst & Young

Ernst & Young

G Lotter
Partner
Perth
27 February 2015