

27 October 2015

Ms Anjuli Sinniah
Adviser, Listings Compliance
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Perth WA 6000

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Dear Ms Sinniah,

We refer to your letter dated 20 October 2015 and provide the following answers to your questions in relation to the Company's audited financial statements for the year ended 30 June 2015 ("the Accounts"). Our responses correspond with your numbering.

1. We confirm that, in the directors' opinion, the Accounts,
 - a. Comply with the relevant Accounting Standards; and
 - b. Give true and fair view of the financial performance and financial position of the Company.
2. Auditor's opinion and note 2(a) to the Accounts

The auditor draws attention to the excess of current liabilities over current assets by \$9,145,947, and comments that the Company "*At the date of this report (24 September 2015) ...has not secured sufficient additional funding to be able to fulfil future committed operational expenditure.*"

The excess of current liabilities over current assets includes (1) interest bearing loans and borrowings of \$8,581,373 and (2) provision for loss on engineering services contract of \$4,338,951.

- (1) The interest bearing loan is payable to Monadelphous Group Limited. Further details are given in note 15 to the Accounts, and commentary on the importance of this loan is given in note 2(a). In particular we state "*The Group has entered into loan agreements with Monadelphous Group Limited to provide funding of \$10,100,000. The full amount of this loan is forecast to be drawn by 30 September 2015. Monadelphous has indicated its intention to continue to provide financial support to Anaeco during the remainder of the WMRC Project commissioning period.*"

We note that the auditor's statement made on 24 September 2015 that the Company had not yet secured sufficient additional funding was factually correct.

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

On 16 October 2015 the Company and Monadelphous agreed terms for an additional funding facility of up to \$3,500,000 which increases the total loan facility, excluding interest, to \$13,600,000. The terms of the extended facility are consistent with the existing terms as disclosed in the Accounts.

- (2) The provision of loss on engineering services contract is an estimate of the costs to complete the WMRC Project, as of 30 June 2015. The auditor commented on "the complex nature and level of uncertainty related to this project.."

The WMRC Project has been the first full scale demonstration of the AnaeCo™ System. A summary of current year activity and progress is given in the Review of Operations, part of the Directors' Report in the Accounts. We also draw attention to the Company's ASX announcement released on 17 August 2015 explaining an extended shutdown period and other factors affecting the performance trials and project completion. With many of these variables beyond AnaeCo's control it is not a simple task to formulate an estimate, and possibly more difficult for an auditor to independently substantiate.

Currently the plant remains in the extended maintenance shutdown period. The work to be completed as well as the other variables described in the 17 August announcement is under review and an update will be made to the market once a programme has been agreed among the project stakeholders.

Note 2(a) includes reference to the 2014/2015 R&D Tax Incentive. The Company has now lodged its 2015 income tax return which includes a R&D Tax Incentive claim for \$9,884,688. This should give rise to a refundable tax offset (cash refund) of \$4,448,110. Based on prior years' experience we expect to receive the refund payment before 31 December 2015.

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

"The Monadelphous loan is due for repayment by 31 December 2015. The Research & Development Tax Incentive refund for 2015 will be applied in part as a repayment of the loan.

The loan may be repaid, at the lender's election, by conversion of debt to equity (subject to AnaeCo shareholder approval). It is the

directors' current expectation that a substantial portion of the loan will be repaid by a debt to equity conversion."

We go on to say:

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

...

The loan may be repaid, at the lender's election, by conversion of debt to equity (subject to AnaeCo shareholder approval). It is the directors' current expectation that a substantial portion of the loan will be repaid by a debt to equity conversion."

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

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

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

4. There is no question 4.
5. The Company prepares forecasts of capital equipment and commissioning/operating expenditure based on the best available information from the project manager and plant manager. The forecasts include labour and materials which are for AnaeCo's account. It includes the best available knowledge of planned repairs, maintenance and as applicable, new work or re-work, for design or operational improvements. It also includes best available estimates of the time for scheduled completion of plant commissioning which includes performance trials.

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

With the project approaching its completion phase, the performance trial criteria and conditions for achieving practical completion are under review, as announced on 17 August. It is difficult for the Company to accurately estimate, and the auditor to audit, the outcome of a matter under review.

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

6. Yes. This conclusion is based on a reasonable expectation that the Company will fulfil its obligations with respect to the WMRC Project in the near term, and that it will achieve effective repayment of the interest bearing loan owing to Monadelphous as described in response 3 above.
7. Not applicable.
8. Our goal is to successfully commercialise the AnaeCo™ System technology, which translates to building a profitable enterprise that has sufficient capital to sustain and grow its business operations.
9. The Company is in compliance with the Listing Rules and, in particular Rule 3.1.

Yours sincerely

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

David Lymburn
Managing Director



20 October 2015

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

By email: THinton@anaeco.com

Dear Mr Hinton

ANAECO LIMITED (the “Company”)

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

1. The Company’s financial statements for the year ended 30 June 2015, released to the market on 24 September 2015 (the “Accounts”).
2. The Independent Auditor’s Report on pages 49 to 50 of the Accounts (“Auditor’s Report”) which includes the following Disclaimer of Opinion:

Basis for Disclaimer of Opinion:

We draw attention to Note 2(a) in the financial report which indicates that the consolidated entity incurred losses of \$7,807,993 during the year ended 30 June 2015 and at that date its current liabilities exceeded its current assets by \$9,145,947. 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 audit 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 report.

As set out in Note 10, the consolidated entity has recognised development expenditure, amounting to \$3,235,782, 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 consolidated entity’s ability to fully recovery (sic) this development expenditure. As set out in Note 14, the consolidated entity has recognised a provision to complete the WMRC Project, amounting to \$4,338,951, 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 audit evidence to assess the adequacy of the cost to complete the WMRC Project. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient



appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial report.

Relevant Listing Rules and Guidance

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

Questions for Response

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

1. Is the Company able to confirm that, in the directors' opinion, the Accounts:
 - (a) comply with the relevant Accounting Standards; and
 - (b) give a true and fair view of the financial performance and financial position of the Company?
2. In light of the matters set out in the auditor's opinion, please explain the factors considered by the directors to satisfy themselves that, notwithstanding the auditor's opinion, the Accounts could be prepared on a going concern basis. In answering this question, please comment specifically on the matters referred to in note 2(a) to the financial statements in the Accounts.
3. The Company has stated in Note 2(a) that it *"...has access to the Australian equity capital markets. Accordingly the Group considers it maintains a reasonable expectation of being able to raise funding from the market as and when required although it cannot determine in advance the terms upon which it may raise such funding... The Board is confident that to the extent additional funding is required to fund administrative and other committed expenditure or new development initiative, it will be able to raise such funding in the financial markets."* What plans does the Company currently have to raise additional capital to address the going concern matters raised by the auditor?
4. The Company has stated in Note 14 that:

"Completion of WMRC Project is estimated to occur in the 2015 calendar year. The WMRC Project is being undertaken 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 atf DiCOM AWT Investment Trust. The Design & Construct contract is a fixed price contract. Whilst AnaeCo and Monadelphous have joint 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 30 June 2015.”

5. The auditor states that “*due to the complex nature and levels of uncertainty related to the project we are unable to obtain sufficient appropriate audit evidence to assess the adequacy of the cost to complete the WMRC Project*”. What steps does the Company intend to take to ensure in future periods it can provide the auditor with sufficient and appropriate audit evidence in relation to costs associated with the WMRC Project?
6. 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.
7. If the answer to question 6 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.
8. What steps does the Company intend to take to obtain an unqualified audit opinion in the future?
9. 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 9.00am WST on Wednesday, 28 October 2015**. If the information is required immediately under Listing Rule 3.1, you should discuss with ASX whether it is appropriate to request a trading halt in the Company’s securities under Listing Rule 17.1.

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

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

Yours sincerely,

[sent electronically without signature]

Anjuli Sinniah
Adviser, Listings Compliance (Perth)