ANAECO LIMITED

A.B.N. 36 087 244 228

ANNUAL FINANCIAL REPORT 2011

For the year ended 30 June 2011

Corporate Directory

Directors

Prof. Michael Dureau (Chairman)
Mr Gianmario Alessio ("Les") Capelli (Non-executive Director)
Dr Ian Campbell (Non-executive Director)
Mr Shaun Scott (Non-executive Director)
Mr Richard Rudas (Executive Director)

Company Secretary

Mr David Lymburn

Registered office

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Share registry

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Telephone: 1300 731 338 (enquiries within Australia)
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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 2011.

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.

Professor Michael Dureau – Chairman
BE (Chem)USyd, MAppSc (Env Pollution Control) UNSW, FTSE, Hon FIEAust, CPEng, FIChemE, CE, CSci, FAICD
Professor Dureau is a former Managing Director of ABB Power Generation and ALSTOM Power and has extensive experience with international organisations, as well as the public sector. His experience extends to the fields of design, production and project management, sales and marketing, supply management, logistics, quality and risk management across the chemical, water and waste control, instrumentation and power industries. At the University of Sydney he is an Adjunct Professor of Engineering and the executive director of the Warren Centre for Advanced Engineering.
During the past three years he has also served as a director of the following other listed companies:

- Ceramic Fuel Cells Limited – appointed 8 December 2005, resigned 24 November 2009.

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.

Dr Ian Lindsay Campbell – Non-executive Director
BSc, B Eng(Hons), PhD (Electrical engineering)
Dr Campbell was a co-founder of the CPS group of companies, a business primarily engaged in 'build, own and operate' software based services, typically processing high transaction volumes and forging enduring relationships with large corporates.
During the past three years he has also served as a director of the following other listed companies:

- Powerlan Ltd – appointed 28 November 2005

Shaun Scott– Non-executive Director – appointed 7 March 2011
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:

- Pure Energy Resources Ltd – resigned 25 September 2008
- Dart Energy Ltd – appointed 21 July 2010
- Acer Energy Ltd – appointed 11 March 2011
- Site Group International Limited – appointed 2 August 2011

Richard Rudas – Executive Director
BE, MEngSc, MIE Aust, CP Eng
Richard Rudas is a corporate member of the Institution of Engineers, Australia and has over 30 years of professional and managerial experience at senior levels, including 14 years as managing director of private and public companies.
He has not served as a director of any other listed company in the past three years.

Thomas Rudas – resigned 21 June 2011
BSc (Hons), MBA
Thomas Rudas served as Managing Director throughout the financial year until his resignation on 21 June 2011.
He has not served as a director of any other listed company in the past three years.

DIRECTORS' REPORT

COMPANY SECRETARY and CHIEF FINANCIAL OFFICER

David Lymburn
B.Acc, ACA
David Lymburn has been the company secretary of AnaeCo Limited since January 2004. He is a Chartered Accountant with over twenty 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.

MEETINGS OF DIRECTORS

The number of meetings of the Board of Directors of the Company held during year ended 30 June 2011 and the number of meetings attended by each director is as follows:

	Meetings held during tenure	Meetings attended
Les Capelli	11	9
Ian Campbell	11	10
Michael Dureau	11	11
Shaun Scott	3	3
Richard Rudas	11	10
Thomas Rudas	10	10

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

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

	Fully Paid Ordinary Shares	Options Over Ordinary Shares (Quoted)	Incentive Options Over Ordinary Shares (Unquoted)
		Class B	
Les Capelli	10,624,152	955,396	750,000
Michael Dureau	1,888,889	220,834	750,000
Ian Campbell	22,582,809	-	750,000
Shaun Scott	600,000	-	-
Richard Rudas	13,554,901	1,653,137	825,000

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 DiCOM™ System).

OPERATING AND FINANCIAL REVIEW

The net loss after income tax of the Group for the financial year was $11,824,250 (2010: loss $7,097,258).

Review of Operations

Commercialisation of DiCOM™ System
The principal focus of the Group during this financial year has been the commercialisation of the DiCOM™ System by way of its application at the Western Metropolitan Regional Council ("WMRC") project in Perth, Western Australia.

DIRECTORS' REPORT

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). The project was developed in two stages. The first stage, which involved demonstrating the DiCOM™ bioconversion process at full scale, was completed and validated by an independent engineer (Sinclair Knight Merz) in the 2010 financial year. With the proven success of the first stage, the client commissioned the second stage or 'expansion project' which involves increasing the capacity of the plant to 55,000 tpa and bringing it to full commercial operations (WMRC DiCOM Expansion Project).

During the current year the main activities in relation to the WMRC DiCOM Expansion Project have been;

- Completion of engineering design including adoption of 'lessons learned' from Stage 1,
- Assisting PRIF with due diligence leading to investment approval and financial close,
- Preparation and submission of a lump sum price for the Design & Construct services on the project in conjunction with construction partner Monadelphous Group Limited,
- Execution of contractual documentation in December 2010 leading to commencement of detailed design delivery, and
- Sale of AnaeCo's 16.4% equity interest in the WMRC DiCOM™ project to PRIF in December 2010.

By the end of the current financial year, AnaeCo's delivery of detailed design for the WMRC DiCOM Expansion Project was nearing completion and site construction was well underway. 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. This is the first project to be undertaken by the AnaeCo-Monadelphous Joint Venture (an unincorporated venture formed to jointly undertake design and construct services of DiCOM™ plants in Australia). The project is scheduled for completion and handover for operations in late calendar year 2012.

The completion of detailed design for the WMRC DiCOM Expansion Project provides another milestone in the preparation of the DiCOM™ System for broader commercial roll-out. The Group now possesses comprehensive detailed designs and specifications of all component parts of a standard sized DiCOM™ plant which comprises;

- the materials recovery facility, including a proprietary designed trommel and glass and grit recovery system,
- a set of three DiCOM™ bioconversion vessels, including the enclosed screw conveyor materials handling system and associated water tanks and piping system,
- the biogas management system including gas engine for electricity generation and flare,
- the odour management system,
- the compost classification and removal system, and
- the DiCOM™ Process Control System which comprises a distributive control system and the proprietary DiCOM™ PCS programme that controls all function.

A substantial body of intellectual property has been created over a number of years in developing and refining these concepts and designs. Much of this is already protected by registered patents and during the current financial year the Group extended its intellectual property protection with the identification and recording of a number of new patentable innovations.

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

- Preparation for commissioning and operation of the WMRC DiCOM™ facility,
-
- Refining and standardising the detailed designs the Group already has to render them ready for deployment in future projects and able to be transferred for use by other engineers and constructors in any market, and
- Furthering the commercialisation of the DiCOM™ System by securing and commencing new revenue generating projects.

These goals are all aimed at entrenching the transition from technology development to commercialisation. In conjunction with this re-focussing of efforts on commercialisation, on 25 July 2011, the Group appointed Mr Patrick Kedemos as Chief Executive Officer. Mr Kedemos is an experienced commercial executive having held a series of senior leadership positions across a range of commercial, financial, marketing and strategic disciplines with his previous employer.

DIRECTORS' REPORT

Review of Financial Performance

During the year, the Group earned a moderate amount of revenue from the provision of engineering services, through secondment of labour. AnaeCo's fee for design and commissioning services under the Design & Construct contract on the WMRC DiCOM Expansion Project is conditional on the cost of all third party procured equipment and materials being below the amount budgeted in the lump sum price. At the end of the current financial year it is not forecast that all equipment and materials will come in below budget and accordingly AnaeCo is not forecasting to earn an engineering fee on this contract.

The WMRC DiCOM Expansion Project is a critical step for AnaeCo as the first complete application and flagship project of the DiCOM™ System. From a commercial perspective, it is still a development project which means AnaeCo's services to this project are required to be funded by equity rather than receipts of revenue. It is a reflection of the importance of getting this first complete project built that AnaeCo accepted some aggressive commercial terms.

To fund its delivery obligations on this contract as well as the necessary completion of the DiCOM™ System technology, the Group has been dependant on equity and loan funding as well as asset sales throughout the financial year.

In summary, the sources and applications of cash for the 2011 year have been as follows, with the prior period as a comparison:

	12 months 30 June 2011 $'000	12 months 30 June 2010 $'000
Sources		
New equity issues, net of costs	1,899	4,232
Inflow from borrowings net of repayments	1,934	1,582
Sale of investments	1,880	-
Reduction in cash at bank	1,294	2,905
	7,007	8,719
Applications		
Project expenditure (WMRC)	1,181	2,803
Technology development (total of expense and capitalised as intangible asset)	3,676	2,277
Corporate, administration and business development overheads (net of sundry revenue)	2,095	3,044
Equipment and software purchases	34	266
Finance costs	21	329
	7,007	8,719

Total cash burn for 2011 is lower than 2010 because the first half of 2010 included considerable expenditure in completing commissioning and performance trialling at the WMRC Stage 1 project. This reduction in total cash burn includes an increased investment in technology development which has been necessary to ensure the DiCOM™ System is ready for the WMRC DiCOM Expansion, and subsequent projects.

As the Group transitions to a more commercial footing, it will now be a focus of management to apply a more rigourous discipline to cost control than was the case during the phase dominated by technology development.

At 30 June 2011, the Group had cash reserves of $56,246 and net current liabilities of $4,138,903.

On 5 July 2011, the Group raised $1,500,000 in new equity by the issue of 25,000,000 shares at $0.06 each.

On 30 August, the Group raised $1,445,000 in short term unsecured loan funding from Bizzell Capital Partners Pty Ltd.

The Group will need to replenish working capital to sustain ongoing operating costs, overheads and business development costs.

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 Board has established a Technical and Risk Committee as a standing sub-committee of the Board. However, due to the early stage of development of the Group's business and the present Board composition during the 2011 year the entire Board undertook the function of this committee. Further commentary on the Technical and Risk Committee is contained within the Corporate Governance Statement.

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 2011.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

- The Group sold its 16.4% interest in the entities which own the DiCOM ™facility installed at the WMRC waste transfer station to the other investor, PRIF. The sale proceeds, net of estimated stamp duty, was $1,880,000
- The Group raised additional equity funding in December 2010 by the issue of 20,000,000 ordinary shares at $0.10 each, raising $2,000,000.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely developments in the forthcoming financial year include;

- Continuing the transition to a fully commercially focussed business operation.
- Working towards successful commissioning of the WMRC DiCOM Expansion Project.
- Further development of the DiCOM™ System and its component parts as a technology based product capable of being installed and constructed by third parties through technology transfer and licensing arrangements.
- Development of new opportunities for DiCOM™ facilities both in Australia and overseas.

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 5 July 2011 the Group issued 25,000,000 ordinary shares in a placement, at $0.06 each, raising $1,500,000
- On 24 August 2011 the Group issued 2,129,441 fully paid ordinary shares to employees under its employee loyalty bonus scheme. (The portion of this share issue attributable to the 2011 financial year was accounted for at year end.)
- On 30 August 2011 the Group raised $1,445,000 in short term unsecured loan funding from Bizzell Capital Partners Pty Ltd.

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 Group, and includes up to five executives in the Group and Company receiving the highest remuneration.

For the purposes of this report, the term 'executive' includes the Chief Executive Officer ("CEO"), Executive Director and the Chief Financial Officer. Therefore the Key Management Personnel are Les Capelli (Non-executive Director – appointed 28 November 2008), Ian Campbell (Non-executive Director – appointed 13 May 2009), Michael Dureau (Non-executive Director – appointed 23 August 2005), Shaun Scott (Non-executive Director – appointed 7 March 2011), Patrick Kedemos (Chief Executive Officer – appointed 25 July 2011), Richard Rudas (Executive Director – appointed 21 April 1999) and David Lymburn (Chief Financial Officer and Company Secretary – appointed 10 July 2006). Thomas Rudas was a KMP until his resignation as Managing Director on 21 June 2011.

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 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 throughout the 2011 financial year. Subsequent to the year end, the Board and CEO have commenced a revision of remuneration structure with specific emphasis on incentive remuneration and reward for performance. Accordingly there will be substantive changes to the remuneration structure in coming months, and where appropriate the impact of these changes is described below.

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.

Currently the Chairman and other Non-executive directors receive a fixed annual remuneration of $70,000 each, inclusive of superannuation. Presently there are no additional fees for participation in Board committees.

In addition, some Non-executive directors have been issued 750,000 options over ordinary shares in a previous financial year. Details of the terms and conditions of these options are provided elsewhere in this

Remuneration Report. These options have been issued to incentivise the Non-executives to drive the Group to achieve its goals and to have this represented by growth in shareholder value.

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.

Structure

In determining the level and make-up of executive remuneration, the Board reviews current industry and wider market practices, and may if it is considered appropriate, engage external consultants to provide independent advice.

The Group has entered into a detailed contract of employment with the CEO, the Executive Director and the Chief Financial Officer. Details of these contracts 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 below.

Fixed remuneration

Objective

Fixed remuneration is reviewed annually 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.

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. 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.

Current Structure

Actual STI payments that may granted to each executive depend on the extent to which specific targets set at the beginning of the financial year are met, and are subject to Board discretion and overall Group performance. The targets may consist of a number of Key Performance Indicators (KPIs) which can cover financial and non-financial, corporate and individual measures of performance. There were no specific KPI targets set for KMP for the 2011 financial year. There have been no STI bonuses awarded to executives for the 2010 and 2011 financial years.

The maximum STI bonus that may be payable under the current contracts is expressed as a percentage of annual fixed remuneration including mandatory superannuation. For Richard Rudas and David Lymburn that percentage is 30%, and for Thomas Rudas it was 50%.

Whilst significant progress has been achieved in demonstrating the successful development of the DiCOM™ System including commencement of the WMRC DiCOM Expansion Project, the Group has still to reach a sustainable level of commercial business operations. Accordingly, and based on overall performance of the Group, in the opinion of the Board the award of STI bonuses for the 2011 financial year was not appropriate.

Revised STI Structure - 2012

An employee shall be entitled to a Short Term Incentive (STI) of up to a fixed percentage of the Base Salary. The percentage STI applicable in each case will depend on the employee's position in the Group. The STI will be assessed on an annual basis in arrears, in July each year.

Entitlement to the STI will be partly weighted towards 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 key performance indicators.

The STI will be awarded in the form of fully paid shares. The number of shares allocated will be based on the weighted average price 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.
The contract for newly appointed CEO, Patrick Kedemos embodies this revised STI structure. In his case the STI entitlement is up to 50% of his Base Salary and the split between TSR performance and individual KPI performance is 60%/40%.

<u>Variable remuneration – Long Term Incentive (LTI)</u>

Objective

The objective of the LTI plan is to reward executives in a manner that aligns remuneration with the creation of shareholder wealth. As such, LTI grants are generally only made to executives who are able to influence the generation of shareholder wealth and thus have an impact on the Group's performance against the relevant long term performance hurdle.

Current Structure

LTI grants to executives are delivered in the form of share options.

The Group has an Employee Share Option Plan ("ESOP"), the objective of which is to assist in the recruitment, reward, retention and motivation of employees of the Group. Each option under the plan will be issued free of charge.

The exercise price for options granted under the ESOP is fixed by the Board prior to the grant of the option, from time to time. The Board will also determine appropriate performance hurdles as vesting conditions prior to the grant of options. The performance hurdles set as vesting conditions for these options are share price based. The options do not vest to directors or employees until the share price reaches particular levels. The reason for choosing share price as the vesting criteria is to align director and employee incentives with shareholder value creation.

The terms and conditions of director, executive and employee options are the same, subject to the share price vesting hurdles and the exercise prices for the Series 2 options being higher that the Series 1 options. Details of the number and terms and conditions of all these options is provided elsewhere in this Remuneration Report.

The Group prohibits executives from entering into arrangements to protect the value of unvested awards. The prohibition includes entering into contracts to hedge their exposure to options awarded as part of their remuneration package.

During the financial year the Group did not issue any new options under the ESOP. There were no issues of options to key management personnel during the year.

There is no provision in any of the executive contracts or employment contracts which specify or require the future grant of any specific quantity of options, or any specific terms and conditions for options.

In addition the Group rewards employee loyalty by the issue of shares to employees under the Employee Loyalty Share Bonus Scheme. Under this scheme all employees who have a served a minimum qualifying

period of 3 months are eligible to participate in the annual loyalty bonus award of shares which is allocated on 31 July each year. There are no performance conditions attached to the award, other than continuity of service, as its purpose is to promote staff retention.

Under this scheme the Board may grant a loyalty bonus to employees of up to 10% of their annual base salary and this bonus is settled by the issue of fully paid ordinary shares at an issue price calculated using a volume weighted average for the five days preceding the award date. The Board has resolved to grant a 5% award at 31 July 2011 and using a fair value issue price of $0.063 per share this resulted in the issue of 2,129,441 shares to employees, including 545,162 issued to Key Management Personnel. These shares were issued on 24 August 2011, and no portion of the 2011 award had vested at 30 June 2011. The maximum amount of shares allocated would have been 4,258,882 if the Board had granted the maximum rate of 10%.

Revised LTI Structure - 2012

The Board is currently working on plans to replace the current option based LTI with a blend of Loan Funded Share Plan and Performance Rights.

A material feature of the proposed Loan Funded Share Plan is the issue of shares pursuant to the plan may be undertaken by way of provision of a non-recourse, interest free loan to be used for the purposes of subscribing for the shares based on a 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 contract of employment for CEO Patrick Kedemos adopts an LTI using loan funded shares. Under this contract the Company has agreed to allot 2,250,000 ordinary shares to Mr Kedemos, funded by a loan. The value of the loan will be determined using the volume weighted average share 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. Once allotted, these shares will vest to Mr Kedemos, one third each on the first, second and third anniversary of the commencement date of his employment.

Performance Rights are a variation of share options with specific exercise terms. The Board is still working on the terms and structure of a Performance Rights plan which may be used as an LTI.

The Group's financial performance during the 2011 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).

	2011	2010	2009	2008	2007
Net loss after tax	11,824,250	7,097,258	6,506,321	5,110,804	4,398,348
(loss) per share (cents)	(6.2)	(4.4)	(5.2)	(5.8)	n/a [1]
Share price at 30 June (cents)	7.5	16.0	29.5	22.5	n/a

[1] The Company was not listed in this year and EPS was not calculated.

Employment contracts

The Group has entered into employment contracts with Patrick Kedemos (as Chief Executive Officer), Richard Rudas (as Executive Director - Projects) and David Lymburn (as Chief Financial Officer). The contract with Patrick Kedemos has a commencement date of 25 July 2011 and the contracts with Richard Rudas and David Lymburn are dated 24 September 2009.

Under the contracts the executives will receive fixed remuneration of, respectively, $260,000, $211,355 and $211,355 per annum (excluding mandatory superannuation). These amounts of fixed remuneration for Richard Rudas and David Lymburn were increased during 2011 from $205,000 as part of an across the board CPI review. The employment contracts provide for CPI increases annually. There are no contracted increases to the levels of fixed remuneration in these employment contracts, although there are provisions for adjustment following performance reviews.

Under the contracts the executives are 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 Patrick Kedemos has no fixed term. The contracts with Richard Rudas and David Lymburn have a term of 3 years. The contracts may be terminated by the Group if the relevant executive has an illness that prevents him from working or in the event of serious misconduct.

If the Group terminates a contract (other than for serious misconduct or illness) then the relevant executive is entitled to be paid his full salary and entitlements for the then unexpired period of the contract (limited to a period of 6 months in the case of Patrick Kedemos and 12 months in the case of either Richard Rudas or David Lymburn).

The contract of employment with Thomas Rudas will terminate on 21 September 2011, which is 3 months from his date of resignation. There is no termination payment payable to Thomas Rudas, other than normal salary and entitlements up to and including 21 September 2011. Any incentive options held by Thomas Rudas will lapse 30 days after 21 September 2011, unless exercised before then. Thomas Rudas is entitled to the Employee Loyalty Share Bonus as he was an employee at the date of award, 31 July 2011.

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

2011	**Short term benefits**			**Post employment benefits**	**Share based payments**		**Long term benefits**		
	Salary and fees $	**Cash bonus $**	**Non monetary benefits (1) $**	**Super-annuation benefits $**	**Options (2) $**	**Loyalty share bonus (3) $**	**Long service leave $**	**Total $**	**% performance related**
Non-executives									
Les Capelli	70,000	-	3,617	-	9,750	-	-	83,367	11.7%
Michael Dureau	70,000	-	3,617	-	1,500	-	-	75,117	2.0%
Ian Campbell	64,220	-	3,617	5,780	9,750	-	-	83,367	11.7%
Shaun Scott	51,333	-	3,617	-	-	-	-	54,950	-
Executives									
Thomas Rudas	250,631	-	14,196	27,556	5,500	13,210	7,939	319,032	1.7%
Richard Rudas	200,635	-	15,706	18,897	1,650	10,568	7,063	254,519	0.6%
David Lymburn	196,171	-	7,605	24,915	1,650	10,568	-	240,909	0.6%
Total remuneration	902,990	-	51,975	77,148	29,800	34,346	15,002	1,111,261	

(1) Includes directors and officers insurance premium of $25,317, allocated across all KMP.
(2) Value of incentive options granted in previous years, the expense for which is allocated in this financial year.
(3) Under the loyalty share bonus scheme on 24 August 2011, 209,678 shares were awarded to Thomas Rudas, and 167,742 shares were awarded to each of Richard Rudas and David Lymburn. The portion of the value of the bonus scheme share issue which relates to the 2011 award (11/12ths) is included in the remuneration report for the current year.

2010	**Short term benefits**			**Post employment benefits**	**Share based payments**		**Long term benefits**		
	Salary and fees $	**Cash bonus $**	**Non monetary benefits $**	**Super-annuation benefits $**	**Options (1) $**	**Loyalty share bonus (3) $**	**Long service leave $**	**Total $**	**% performance related**
Non-executives									
Les Capelli	35,083	-	4,552	34,917	59,250	-	-	133,802	44.3%
Michael Dureau	70,000	-	4,552	-	3,750	-	-	78,302	4.8%
Ian Campbell	64,220	-	4,552	5,780	59,250	-	-	133,802	44.3%
Executives									
Thomas Rudas	(2) 285,389	-	35,082	35,474	13,750	12,813	7,622	390,131	3.5%
Richard Rudas	(2) 201,027	-	24,244	23,201	4,125	10,250	6,400	269,247	1.5%
David Lymburn	(2) 214,712	-	10,558	21,817	4,125	10,250	-	261,462	1.6%
Total remuneration	870,431	-	83,540	121,189	144,250	33,313	14,022	1,266,746	

(1) Value of incentive options granted in previous years, the expense for which is allocated in this financial year. The disclosure of the expense allocated in the 2010 financial year was omitted in error from the 2010 annual financial report.
(2) During the 2010 year the Company paid back-pay to the executives relating to increases in salaries for the period February 2008 to November 2008 but which were not authorised for payment until the current financial year, and for this reason the reported remuneration comprising salary and non-monetary benefits in the table above exceeds the executives' contracted salary sum explained under Employment Contracts.
(3) Under the loyalty share bonus scheme on 3 September 2010, 71,181 shares were awarded to Thomas Rudas, and 56,944 shares were awarded to each of Richard Rudas and David Lymburn. The portion of the value of the bonus scheme share issue which relates to the 2010 award (11/12ths) is included in the remuneration report for the current year.
(4) Includes directors and officers insurance premium of $27,312, allocated across all KMP. The disclosure of the allocation of this insurance premium to the KMP was omitted in error from the 2010 annual financial report.

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

Unquoted options comprising long term incentive (LTI) remuneration

During the year the Company did not issue any options or share incentives to KMP.

None of the unquoted long term incentive options held by KMP were exercised or lapsed during the year.

At the date of this report there are 6,650,000 unquoted Series 1 options held by KMP which are subject to the following vesting conditions.

The Options shall vest with the KMP in equal portions of one half respectively upon the achievement of each of two vesting hurdles, subject to the KMP remaining as a director or employee of the Group from the date of grant of the Options, until the date of achieving each vesting hurdle.

The two vesting hurdles are;

- Share price trades at an average of $0.50 or higher on any consecutive 10 day period, after 31 December 2008 (or 31 December 2009 for those options granted subsequent to 31 December 2008).
- Share price trades at an average of $1.00 or higher on any consecutive 10 day period, after 31 December 2009.

None of the options had vested and therefore none had been exercised during the year or at the date of this report.

END OF REMUNERATION REPORT

SHARE OPTIONS

Share Options
At the date of this report, details of issued options over ordinary shares are as follows.

Quoted Options

Class	Number	Expiry	Exercise price
Class B	13,737,832	31 May 2012	$1.00

Unquoted Options

	Number	Expiry	Exercise price
Series 1	10,375,000	31 December 2011	$0.25
Series 2	1,500,000	31 December 2012	$0.35

During the year 1,475,000 Series 2 unquoted options lapsed 30 days following the cessation of an employment contract.

Details of unquoted options issued to directors, executives and employees are provided in the Remuneration Report.

Details of all movements in share options are provided in note 19 to the financial statements.

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 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 actions. The premium for this policy is $25,317.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

Once completed, operation of the DiCOM™ facility at Shenton Park (and any subsequent DiCOM™ facility established in Australia) will be subject to provisions of an operating licence issued by the relevant

Government Department. A similar licensing procedure will apply to a DiCOM™ facility constructed in any other country in which the entity operates.

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 [ ] 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; $32,000.

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

Prof. Michael Dureau
Chairman

Perth, Western Australia
22 September, 2011

Ernst & Young

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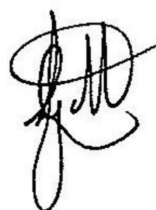
Auditor's Independence Declaration to the Directors of AnaeCo Limited

In relation to our audit of the financial report of AnaeCo Limited for the financial year ended 30 June 2011, 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



G Lotter
Partner
Perth
22 September 2011

Liability limited by a scheme approved under Professional Standards Legislation

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Notes	Consolidated 12 months June 30 2011 $	Consolidated 12 months June 30 2010 $
Revenue	3	191,225	74,739
Project delivery costs	4(a)	(6,042,856)	(1,963,282)
Technology development expense	4(b)	(1,311,831)	(1,111,212)
Depreciation and amortisation expense	4(c)	(486,376)	(233,543)
Finance costs	4(d)	(789,144)	(329,444)
Employee benefits expense	4(e)	(1,157,126)	(1,498,555)
Other expenses	4(f)	(1,590,393)	(1,739,472)
Loss on disposal of investments in jointly controlled entities	4(g)	(637,749)	-
Share of loss on investment accounted for using the equity method		-	(15,239)
Loss before income tax expense		(11,824,250)	(6,816,008)
Income tax expense	5	-	(281,250)
Net loss after tax attributable to members of AnaeCo Limited and total comprehensive expense for the period	21	(11,824,250)	(7,097,258)
Earnings per share for loss attributable to the ordinary equity holders of the Company	31		
Basic loss per share		(6.2) cents	(4.4) cents
Diluted loss per share		(6.2) cents	(4.4) cents

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	Consolidated June 30 2011 $	Consolidated June 30 2010 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	56,246	1,350,595
Trade and other receivables	7	144,230	472,772
Other	8	13,799	16,301
TOTAL CURRENT ASSETS		214,275	1,839,668
Non Current Assets			
Receivables	7	176,614	203,758
Property, plant and equipment	9	111,097	186,592
Intangible assets	10	4,099,908	2,112,421
Investments in jointly controlled entities	11	-	2,517,749
TOTAL NON CURRENT ASSETS		4,387,619	5,020,520
TOTAL ASSETS		4,601,894	6,860,188
LIABILITIES			
Current liabilities			
Trade and other payables	14	967,731	941,965
Provision for loss on engineering services contract	15	2,433,467	1,161,552
Interest bearing loans and borrowings	16	635,116	2,063,768
Non interest bearing liabilities	17	39,000	-
Provisions	18	277,864	205,276
TOTAL CURRENT LIABILITIES		4,353,178	4,372,561
Non Current Liabilities			
Provision for loss on engineering services contract	15	3,452,718	-
Interest bearing loans and borrowings	16	44,616	66,998
Provisions	18	258,438	280,988
TOTAL NON CURRENT LIABILITIES		3,755,772	347,986
TOTAL LIABILITIES		8,108,950	4,720,547
NET (LIABILITIES)/ASSETS		(3,507,056)	2,139,641
EQUITY			
Contributed equity	19	33,469,130	27,369,715
Reserves	20	489,589	411,451
Accumulated losses	21	(37,465,775)	(25,641,525)
TOTAL SHAREHOLDERS (DEFICIT)/EQUITY		(3,507,056)	2,139,641

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	Notes	Consolidated 12 months June 30 2011 $	Consolidated 12 months June 30 2010 $
Cash flows from operating activities			
Receipts from customers		149,823	37,503
Interest received	3	41,402	37,236
Payments to suppliers and employees		(4,779,727)	(7,197,948)
Interest paid		(20,852)	(162,656)
Net cash flows (used in) operating activities	22	(4,609,354)	(7,285,865)
Cash flows from investing activities			
Proceeds from sale of investments		1,880,000	-
Purchases of property, plant and equipment	9	(16,581)	(122,060)
Purchases of computer software classified as intangible assets	10	(17,289)	(144,213)
Expenditure on technology development capitalised as intangible assets	10	(2,364,498)	(1,165,973)
Net cash flows used in investing activities		(518,368)	(1,432,246)
Net cash flows from financing activities			
Proceeds from the issue of shares	19	2,000,000	4,610,489
Share subscription monies held on trust	17	39,000	-
Costs of fundraising		(159,645)	(378,721)
Proceeds from borrowings		2,000,000	2,157,287
Repayment of borrowings		(45,982)	(575,642)
Net cash flows from financing activities		3,833,373	5,813,413
Net decrease in cash and cash equivalents		(1,294,349)	(2,904,698)
Cash and cash equivalents at beginning of period		1,350,595	4,255,293
Cash and cash equivalents at end of period	6	56,246	1,350,595

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

Consolidated For the year ended 30 June 2011	**Issued capital** **$**	**Accumulated losses** **$**	**Employee benefits reserve** **$**	**Total equity** **$**
At the beginning of the year	27,369,715	(25,641,525)	411,451	2,139,641
Loss for the period	-	(11,824,250)	-	(11,824,250)
Total comprehensive (expense) for the period	-	(11,824,250)	-	(11,824,250)
Transactions with owners in their capacity as owners				
Issue of share capital	2,000,000	-	-	2,000,000
Costs of capital raising	(139,645)	-	-	(139,645)
Share based payment	113,254	-	78,137	191,391
Debt for equity conversion of loans	4,125,806	-	-	4,125,806
At the end of the year	33,469,130	(37,465,775)	489,589	(3,507,056)

Consolidated For the year ended 30 June 2010	**Issued capital** **$**	**Accumulated losses** **$**	**Employee benefits reserve** **$**	**Total equity** **$**
At the beginning of the year	22,859,067	(18,544,267)	191,799	4,506,599
Loss for the period	-	(7,097,258)	-	(7,097,258)
Total comprehensive (expense) for the period		(7,097,258)		(7,097,258)
Transactions with owners in their capacity as owners				
Issue of share capital	4,623,471	-	-	4,623,471
Costs of capital raising	(238,721)	-	-	(238,721)
Share based payment	125,898	-	219,652	345,550
At the end of the year	27,369,715	(25,641,525)	411,451	2,139,641

1 Corporate Information

The financial report of AnaeCo Limited ("the Company") and its controlled entities ("the Group") for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 19 September 2011.

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 Group's business activity is the development and commercialisation of an alternative waste treatment system applicable to municipal solid waste. The Group is the developer and owner of the intellectual property and is developing the first full scale commercial application of the technology at a project located in Western Australia.

The financial report presents the Statement of Comprehensive Income, Statement of Cash Flows Statement and Statement of Changes in Equity of the Group for the year ended 30 June 2011 and the Statement of Financial Position of the Group at that date. Comparative figures are for the year ended 30 June 2010.

2 Summary of significant accounting policies

(a) Basis of Preparation

The 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 financial report is presented in Australian dollars.

Going Concern

The Group has net liabilities of $3,507,056 (previous period, net assets of $2,139,641) has net current liabilities of $4,138,903 (previous period net current assets of $2,532,893) and incurred an operating loss after income tax of $11,824,250 (previous period, loss of $7,097,258) for the year ended 30 June 2011.

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 DiCOM™ System and specifically with respect to the application of the DiCOM™ System at the WMRC DiCOM Expansion Project. This progress is feeding through to increased interest in the Group's technology from other prospective customers and accordingly the Group has a pipeline of project opportunities emerging. This provides confidence for the Group's prospects of generating positive cash flow from operations in the future.
- On 5 July 2011 the Group raised $1,500,000 in new equity by the issue of 25,000,000 ordinary shares at $0.06 each.
- On 30 August 2011 the Group raised $1,445,000 in short term unsecured loan funding from Bizzell Capital Partners Pty Ltd.
- 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.

- An Extraordinary General Meeting has been convened for 6 October 2011 and the business for that meeting includes approval for a share placement to raise up to $5.0 million. Another item of business is the approval of a share placement to a Director (Mr Shaun Scott) for $250,000.

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 DiCOM™ 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.

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 2010, the Group has adopted all Accounting Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2010.

None have had an impact on accounting policies of the Group or presentation of the financial statements.

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.

<table>
<tr><th>Reference</th><th>Title</th><th>Summary</th><th>Application date of standard</th><th>Application date for Group</th></tr>
<tr><td>AASB 9</td><td>Financial Instruments</td><td>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).
These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.
(a) Financial assets are 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. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.
(b) AASB 9 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.
(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.</td><td>1 January 2013</td><td>1 July 2013</td></tr>
<tr><td>AASB 2009-11</td><td>Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]</td><td>► These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement.
► This Standard shall be applied when AASB 9 is applied.</td><td>1 January 2013</td><td>1 July 2013</td></tr>
<tr><td>AASB 124 (Revised)</td><td>Related Party Disclosures (December 2009)</td><td>The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:
(a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other
(b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other
(c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other</td><td>1 January 2011</td><td>1 July 2011</td></tr>
</table>

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 *Operating Segments* to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	1 July 2011
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. Public listed entities will apply Tier 1.	1 July 2013	1 July 2013
AASB 1054	Australian Additional Disclosures	This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas: (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements (c) Whether the financial statements are general purpose or special purpose (d) Audit fees (e) Imputation credits	1 July 2011	1 July 2011
AASB 2010-2 ***	Amendments to Australian Accounting Standards arising from reduced disclosure requirements	This Standard makes amendments to many Australian Accounting Standards, reducing the disclosure requirements for Tier 2 entities, identified in accordance with AASB 1053, preparing general purpose financial statements.	1 July 2013	1 July 2013
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions. Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	1 July 2011

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	1 July 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. *Disclosures* require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	1 July 2011
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2013	1 July 2013
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate *SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets* into AASB 112.	1 January 2012	1 July 2012
AASB 2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]	This Standard amendments many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.	1 July 2011	1 July 2011

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2011-2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101, AASB 1054]	This Standard makes amendments to the application of the revised disclosures to Tier 2 entities, that are applying AASB 1053.	1 July 2013	1 July 2013
AABS 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and Interpretation 112 *Consolidation – Special Purpose Entities*. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.	1 January 2013	1 July 2013
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 *Interests in Joint Ventures* and Interpretation 113 *Jointly- controlled Entities – Non-monetary Contributions by Ventures.* AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013
AASB 2011-7	*Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards*	Consequential amendments to AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates* as a result of the adoption of AASB 10 Consolidated Financial Statements, AASB 11 *Joint Arrangements* and AASB 12 *Disclosure of Interests in Other Entities*.	1 January 2013	1 July 2013

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance under Australian Accounting Standards for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under Australian Accounting Standards when fair value is required or permitted by Australian Accounting Standards. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	1 July 2013
AASB 2011-8	*Amendments to Australian Accounting Standards arising from the Fair Value Measurement Standard*	Consequential amendments to existing Australian Accounting Standards as a result of the adoption of AASB 13 *Fair Value Measurement.*	1 January 2013	1 July 2013
AASB 2011-9	Amendments to Australian Accounting Standards - *Presentation of Items of Other Comprehensive Income* [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	The main change resulting from the amendments relates to the 'Statement of Profit or Loss and Other Comprehensive Income' and the requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not remove the option to present profit or loss and other comprehensive income in two statements. The amendments do not change the option to present items of OCI either before tax or net of tax. However, if the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified to profit or loss and those that will not be reclassified) must be shown separately.	1 July 2012	1 July 2012
AASB 119 (Revised)	Employee Benefits	The main changes to accounting for defined benefit plans are: • to eliminate the option to defer the recognition of gains and losses (the 'corridor method'); • requiring re-measurements to be presented in other comprehensive income; and • enhancing the disclosure requirements relating to defined benefit plans for Tier 1 entities. The AASB has provided relief from certain disclosure requirements for entities that adopt Tier 2 Reduced Disclosure Requirements.	1 January 2013	1 January 2013

The Group has not yet determined the potential impact of these new or amended Australian Accounting Standards and Interpretations not yet effective at the reporting date.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of AnaeCo Limited and its controlled entities as at 30 June each year (the Group).

The financial statements of the controlled entities are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, income

and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Controlled entities are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments owned in controlled entities by the parent company are held at cost.

Financial statements of foreign controlled entities presented in accordance with overseas accounting principles are, for consolidation purposes, adjusted to comply with Group policy and generally accepted accounting principles in Australia.

The Group comprises the Company and its wholly owned controlled entities AnaeCo UK Limited and AnaeCo Inc.

AnaeCo UK Limited (a United Kingdom incorporated company) and AnaeCo Inc (a United States 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 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 sales invoice is raised.

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 other than those relating to qualifying assets are recognised as an expense when incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds. The Group does not hold any qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised.

(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 the statement of comprehensive income 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) De-recognition of financial assets and financial liabilities

Financial Assets
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) 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 and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. 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 received that the Group could be required to repay.

Financial Liabilities
A financial liability is de-recognised 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 a de-recognition or the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(k) Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or a group of financial assets is impaired.

Financial assets carried at amortised cost
If there is objective evidence that an impaired loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Financial assets carried at cost
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(l) 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 substantially 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 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 the statement of comprehensive income.

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.

(m) 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 net 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.

(n) 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

Impairment
The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs unless the asset's value in use can be estimated to be close to its fair value. An impairment exists when the carrying value of an asset or cash generating unit exceeds its estimated recoverable amount. The assets or cash-generating unit is then written down to its recoverable amount.

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

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 the statement of comprehensive income in the period the item is derecognised.

(o) Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at financial year-end.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

(p) Investments in jointly controlled entities

Where the Group has investments in entities over which it has the capacity to exert significant influence or joint control that are not controlled entities, it accounts for those investments using the equity method. The Group generally deems is has significant influence if it has over 20% of the voting rights and participates in management through Board representation.

Under the equity method, investments in associates and jointly controlled entities are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group’s share of net assets of the associates and jointly controlled entities. If applicable, goodwill relating to an associate or jointly controlled entity is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group’s net investment in associates and jointly controlled entities.

The Group’s share of its associates’ and jointly controlled entities’ post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movement in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends or distributions receivable from associates and jointly controlled entities are recognised in the parent entity’s statement of comprehensive income, while in the consolidated financial statements they reduce the carrying amount of the investment.

The reporting dates of the associates, jointly controlled entities and the Group are identical and their accounting policies conform to those used by the consolidated entity for like transactions and events in similar circumstances.

Interest in jointly controlled operation
The Group has an interest in a joint venture that is a jointly controlled operation. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves the use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in the jointly controlled operation by recognising its interests in the assets and liabilities of the joint venture. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of services by the jointly controlled operation.

(q) 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 and the ability to measure reliably the expenditure attributable to the intangible asset during its development. 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 and licences	**Development costs**
Useful lives	Finite	Finite
Method used	Amortised up to 20 years on straight-line basis.	Amortised over 10 years on straight-line basis.
Internally acquired or generated	Acquired	Internally generated
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.

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 the statement of comprehensive income when the asset is derecognised.

(r) 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.

(s) Interest-bearing loans and borrowings

All loans and borrowings 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 the income statement 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.

(t) 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 the income statement 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.

(u) Employee leave benefits

Wages, salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave due to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating 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 national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash flows.

(v) 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 consolidate entity. Contributions to superannuation funds are recognised at cost in the period incurred.
There are no other pension schemes or post-employment benefits.

(w) 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:
Each Non-executive director, each key management personnel and all eligible employees have been granted options to acquire shares in the Group based on the incentive option scheme. Details of this scheme and the number of options which have been issued under this scheme 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 monte carlo 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 consolidate 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. 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 value of the 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 options is reflected as additional share dilution in the computation of earnings per share.

(x) Contributed equity

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

(y) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If such an indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and 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 and the asset's value in use cannot be determined to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount.

In assessing its 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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

An assessment is also made at each reporting date as to whether there is any indication previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot 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 revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(z) 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
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 (q), 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.

Deferred tax assets
Deferred tax assets have been estimated based on tax losses and net temporary differences. However the estimated value of deferred tax assets has not been brought to account as management presently cannot conclude it is probable that future taxable profits will be available to utilise those tax losses and net temporary differences.

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;

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. With respect to capitalised technology development expenditure recorded as an intangible asset, the factors which are evaluated when assessing impairment include; likely timing and frequency of future sales of DiCOM™ technology licences, the estimated value of engineering and licence fee sales relating to those future sales, the estimated value of potential future revenue from royalties and plant operations, and the costs of delivering the engineering and technology services. A financial model is prepared with assumptions made for these items, which is then discounted using rates of 15% to 25% to determine a net present value of future potential cash flows. If the net present value is below the carrying value this would indicate an impairment event may have been triggered. 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.

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.

Long service leave
Assumptions are formulated when determining the Group's long service leave obligations. This requires estimation of the probability of current employees attaining the service period required to qualify for long service leave benefits.

Share-based payment transactions
The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is generally determined by an external valuer using a Monte Carlo model.

Estimation of useful lives of assets
The estimation of useful lives of assets has been based on historical experience as well as lease terms for leased equipment and turnover policies for motor vehicles. In addition the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

(aa) 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.

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 as expenses, 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.

(bb) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been considered based on the information provided to the chief operating decision makers, being the executive management team. Throughout 2011 the Group had one operating segment operating in the organic solid waste treatment industry in Australia.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 will be reported separately. However an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

		Consolidated 12 months June 30 2011 $	Consolidated 12 months June 30 2010 $
3.	**Revenue**		
	Engineering services	146,523	-
	Interest income	41,402	37,236
	Other revenue	3,300	37,503
		191,225	74,739
4(a)	**Project delivery costs**		
	Expenditure on long term engineering contracts not previously accounted for	328,231	1,101,730
	Movements in provisions for costs to complete	5,577,755	861,552
	Cost of labour for engineering services billings	136,870	-
		6,042,856	1,963,282
4(b)	**Technology development expense**		
	Expenditure on technology development	3,676,329	2,277,185
	Less capitalised as an intangible asset	(2,364,498)	(1,165,973)
		1,311,831	1,111,212
4 (c)	**Depreciation and amortisation expense**		
	Depreciation of property, plant & equipment	92,076	86,248
	Amortisation of patents, licences and intellectual property	394,300	147,295
		486,376	233,543
4 (d)	**Finance costs**		
	Interest paid to other parties arising on finance leases and hire purchase contracts	17,497	17,759
	Interest expense on loans from related parties	396,149	137,040
	Interest expense on loans from others	3,355	269
	Loan establishment and extension fees paid to related parties	325,000	140,000
	Other finance costs	47,143	34,376
		789,144	329,444
4 (e)	**Employee benefits expense**		
	Wages and salaries	3,304,039	3,337,343
	Defined contribution superannuation plan expense	293,078	268,038
	Less labour costs allocated to projects and technology development	(2,892,715)	(2,662,376)
	Non-executive directors remuneration	261,333	210,000
	Share based payments expense	191,391	345,550
		1,157,126	1,498,555
4(f)	**Other expenses**		
	Premises and related expenses	335,430	316,804
	Consultants and professional advisors	549,045	591,166
	Travel	158,856	186,286
	Other overheads	547,062	645,216
		1,590,393	1,739,472
4(g)	**Loss on disposal of investments in jointly controlled entities**		
	Sale proceeds	1,880,000	-
	Carrying value of investments (refer note 11)	(2,517,749)	-
	Loss on disposal	(637,749)	-

	Consolidated 12 months June 30 2011 $	Consolidated 12 months June 30 2010 $
5. Income Tax		
The major components of income tax expense are:		
Income statement		
Current income tax		
Current income tax (charge) /benefit	-	(281,250)
Deferred income tax		
Relating to origination and reversal of temporary differences	-	-
Income tax benefit as reported in the income statement	-	(281,250)
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	(11,824,250)	(6,816,008)
At the statutory income tax rate of 30% (2010:30%)	3,547,275	2,044,802
Expenditure not allowable for income tax purposes	(258,185)	(111,604)
R & D tax concession rebate	-	(281,250)
Unrecognised tax losses	(3,289,090)	(1,933,198)
	-	(281,250)
Deferred income tax		
Deferred tax assets not recognised		
Unrecognised tax losses	9,356,511	5,995,348
Temporary differences	1,152,799	363,252
	10,509,310	6,358,600
Temporary differences comprises:		
Provision for completion of long term contract	1,771,796	348,466
Unamortised balance of business related expense deductions	264,500	366,756
Employee benefits provisions	160,890	145,879
Other	151,656	103,611
Intangibles – development expenditure	(1,196,043)	(601,459)
	1,152,799	363,253

The deferred tax asset attributable to tax losses has not been recognised as an asset because in the opinion of the Group, there are presently insufficient taxable temporary differences to indicate that recovery is probable.

	Consolidated June 30 2011 $	Consolidated June 30 2010 $
6. Cash and Cash Equivalents		
Cash at bank and in hand	17,246	1,350,595
Share application monies held in trust	39,000	-
	56,246	1,350,595

7. Trade and Other Receivables

	2011 $	2010 $
Current		
Trade receivables	25,019	24,545
Loans receivable - DiCOM AWT Investment Trust	-	307,284
Other receivables	119,211	140,943
	144,230	472,772

Trade receivables at 30 June 2011 is in accordance with the terms of the contract and no impairment loss is expected.
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.

Receivables – Non current

	2011 $	2010 $
Loan receivable - DiCOM AWT Investment Trust	203,758	203,758
Discount applied to non-current receivable	(27,144)	-
	176,614	203,758

The loan receivable from DiCOM AWT Investment Trust is unsecured, does not bear interest and is repayable at bank test completion of the WMRC DiCOM Expansion Project. The recoverability of this loan is not impaired.

8. Other Assets (Current)

	2011 $	2010 $
Prepayments	13,799	16,301

9. Property, Plant and Equipment

	2011 $	2010 $
Property, plant and equipment at cost	582,690	566,109
Less accumulated depreciation	(518,221)	(468,650)
	64,469	97,459
Property, plant and equipment purchased under hire purchase or finance lease	147,584	147,584
Less accumulated depreciation	(100,956)	(58,451)
	46,628	89,133
Total Property, plant and equipment at cost	730,274	713,693
Less accumulated depreciation	(619,177)	(527,101)
Net carrying amount of property, plant and equipment	111,097	186,592
Movements in carrying values during the year:		
Balance at 1 July 2010	186,592	150,780
Additions	16,581	122,060
Disposals	-	-
Depreciation expense	(92,076)	(86,248)
Net carrying amount at 30 June 2011	111,097	186,592

Refer to note 16 for details of encumbrances over property, plant and equipment being purchased under finance lease or hire purchase.

	Consolidated June 30 2011 $	Consolidated June 30 2010 $
10. Intangibles		
Reconciliation of carrying amounts:		
Development expenditure (i)		
At beginning of period	1,946,565	883,043
Capitalised during the period	2,364,498	1,165,973
At end of period	4,311,063	2,049,016
Amortisation expense	(324,253)	(102,451)
At end of period, net of accumulated amortisation	3,986,810	1,946,565
Patents and trademarks		
At beginning of period, net of accumulated amortisation	55,737	61,353
Amortisation expense	(5,616)	(5,616)
At end of period, net of accumulated amortisation	50,121	55,737
Computer software		
At beginning of period, net of accumulated amortisation	110,120	5,135
Capitalised during the period	17,289	144,213
At end of period	127,409	149,348
Amortisation expense	(64,431)	(39,228)
At end of period, net of accumulated amortisation	62,978	110,120
At cost (gross carrying amount)		
Development expenditure	4,413,514	2,049,016
Patents and trademarks	101,143	101,143
Computer software	175,460	158,172
Accumulated amortisation	(590,209)	(195,909)
Net carrying amount	4,099,908	2,112,421

(i) This intangible asset represents that portion of expenditure incurred in development of the Group's DiCOM™ waste management technology which management considers should be carried as an asset. This intangible asset is subject to annual impairment review. The factors which are evaluated when assessing impairment include; likely timing and frequency of future sales of DiCOM™ technology licences, the estimated value of engineering and licence fee sales relating to those future sales, the estimated value of potential future revenue from royalties and plant operations, and the costs of delivering the engineering and technology services. In this financial year the impairment test, based on a fair value calculation, concluded there was no impairment of the intangible asset.

The Group has made significant progress with the commercialisation of the DiCOM™ technology in the period. This includes the execution in December 2010 of a Design & Construct contract for the WMRC DiCOM Expansion Project, where AnaeCo is responsible for the provision of engineering design services and plant commissioning. This Expansion Project involves the completion of a full scale commercial operating DiCOM™ facility and is scheduled for completion and commencement of operations during the 2012/2013 financial year.

Throughout the current period the Group has been working on the engineering design for the WMRC DiCOM Expansion Project as well as investing time and cost into the development of the DiCOM™ 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. Where costs have been identified as directly relating to the creation of future benefits as product designs and systems these costs have been capitalised as an intangible asset.

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

11. Investment in jointly controlled entities

	Consolidated June 30 2011 $	Consolidated June 30 2010 $

During the reporting period the Company sold its investments in DiCOM AWT Investment Trust and DiCOM AWT Operations Pty Ltd (refer note 4(g)), the project entities which will own and operate the WMRC DiCOM™ facility. These investments represented a 16.4% interest in each entity and were accounted for using the equity method up to 30 June 2010.

	$	$
Units in DiCOM AWT Investment Trust, at cost	-	2,409,490
Share of net result	-	100,679
Carrying value of investment in jointly controlled entities	-	2,510,169
Shares in DiCOM AWT Operations Pty Ltd, at cost	-	24,056
Share of net result	-	(16,476)
Carrying value of investment in jointly controlled entities	-	7,580
Total investments in jointly controlled entities	-	2,517,749

The Group has no share of any capital commitment of the jointly controlled entity.
The Group has no share of any contingent liability of the Jointly controlled entity.

12. Investment in controlled entities

	Company June 30 2011 equity interest %	Company June 30 2011 cost $	Company June 30 2010 equity interest %	Company June 30 2010 cost $
Brockway DiCOM Facility Pty Ltd (incorporated in Australia)	-	-	100	1
AnaeCo UK Ltd (incorporated in United Kingdom)	100	200	100	200
AnaeCo Inc. (incorporated in United States)	100	1	100	1
		201		202

13. Parent Entity Information

	2011 $	2010 $
Information relating to AnaeCo Limited:		
Current assets	225,876	1,847,859
Total assets	4,613,696	6,784,379
Current liabilities	4,353,178	4,372,562
Total liabilities	8,108,950	4,720,548
Net assets	(3,495,254)	2,063,831
Contributed equity	33,469,130	27,369,715
Accumulated losses	(37,453,973)	(26,825,009)
Employee equity benefits reserve	489,589	411,452
Total shareholders' equity	(3,495,254)	2,063,831
Net loss of the parent entity	(11,736,638)	(7,077,023)
Total comprehensive (loss) of the parent entity	(11,736,638)	(7,077,023)

Details of contingent liabilities of the parent entity are provided in note 23.

	Consolidated June 30 2011 $	Consolidated June 30 2010 $

14. Trade and Other Payables

	2011 $	2010 $
Trade payables	637,068	664,756
Other payables and accrued expenses	330,662	277,209
	967,730	941,965

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.

15. Provision for loss on Engineering Services Contract

	2011 $	2010 $
Current	2,433,467	1,161,552
Non-current	3,452,718	-
	5,886,185	1,161,552
Movement in provision for costs to complete		
At beginning of period	1,161,552	2,001,000
Project expenditure applied against the provision	(853,122)	(1,701,000)
Provision arising in the period	5,577,755	861,552
At the end of the period	5,886,185	1,161,552

The provision for costs to complete at 30 June 2011 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 DiCOM Expansion Project.
Completion of the WMRC DiCOM Expansion Project is not estimated to occur until the second half of calendar year 2012.

Additional disclosures for contracts in progress at balance date

	2011 $	2010 $
Current contracts		
Losses recognised	(7,968,479)	-
Aggregate costs incurred to date	2,082,294	-
	(5,886,185)	-
Progress billings	-	-
	(5,886,185)	-
Completed contracts		
Losses recognised	-	(8,174,348)
Aggregate costs incurred to date	-	9,924,348
	-	1,750,000
Progress billings	-	(1,750,000)
	-	-

16. Interest Bearing Loans and Borrowings

	2011 $	2010 $
Current		
Loans from related parties (refer note 25(b))	94,947	2,000,000
Hire purchase liabilities (i)	40,169	63,768
Other loan unsecured (ii)	500,000	-
	635,116	2,063,768
Non Current		
Hire purchase liabilities (i)	44,616	66,998

(i) Hire purchase liabilities are secured against the asset being acquired using this equipment finance.
(ii) Other loan is a short term line of funding which was repaid on 5th July 2011.

	Consolidated June 30 2011 $	Consolidated June 30 2010 $
17. Non-interest bearing liabilities (Current)		
Share subscription monies held in trust	39,000	-

Share subscription monies held on trust represents application monies received as at 30 June 2011 for the share placement that was settled on 5 July 2011. For further details see note 29 Significant Events After Balance Date.

	Consolidated June 30 2011 $	Consolidated June 30 2010 $
18. Provisions (Current and Non Current)		
(Current)		
Employee benefits – annual leave	277,864	205,276
(Non Current)		
Employee benefits – long service leave	258,438	280,988
Number of employees at reporting date	23	25

19. Contributed Equity	Company June 30 2011 $	Company June 30 2010 $
Issued Capital		
198,540,247 (2010 ; 177,811,913) fully paid ordinary shares	30,672,500	28,559,246
Debt for equity conversion (i)	4,125,806	-
Costs of capital raising	(1,329,176)	(1,189,531)
	33,469,130	27,369,715

Movements in issued capital		2011		2010	
Ordinary fully paid shares	Date	Shares	$	Shares	$
Balance at 30 June 2009		-	-	156,911,302	23,809,878
Employee share bonus(ii)	July '09	-	-	358,821	7,774
Share issue – Placement	Dec '09	-	-	51,925	12,981
Share issue – Placement	Feb/May '10	-	-	11,111,108	2,499,999
Share Purchase Plan	Feb/May '10	-	-	6,666,667	1,500,000
Share issue – Placement	May '10	-	-	2,711,111	610,000
Conversion of options		-	-	979	490
Shares to be issued post balance date(ii)		-	-	-	118,124
Balance at 30 June 2010		177,811,913	28,559,246	177,811,913	28,559,246
Employee share bonus (ii)	Sept '10	728,334	12,976		
Share issue – Placement	Dec '10	20,000,000	2,000,000		
Shares to be issued post balance date(ii)		-	100,278		
		198,540,247	30,672,500		

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.

(i) The debt for equity conversion relates to the conversion to equity of loans owing to director related entities Nichol Bay Holdings Pty Ltd, a company controlled by Mr Les Capelli, and CF2 Pty Ltd as trustee for the CF Trust, an entity controlled by Mr Ian Campbell. Further details of this conversion are provided in note 25.

(ii) Under the Employee Loyalty Share Bonus Scheme, when an award of shares is made this occurs on 31 July and relates to continuity of employment service for the 12 months up to that date. For accounting purposes the cost of the award of employee loyalty bonus shares is recorded based on financial years. Therefore in the 2011 financial year the Company has recorded 1/12 of the cost of the 31 July 2010 award and 11/12 of the 31 July 2011 award.

Share Options

As at 30 June 2011 details of share options on issue is as follows;

Class	Number	Expiry	Exercise price
Class B quoted	13,737,832	31 May 2012	$1.00
Unquoted director and employee incentive options (Series 1)	10,375,000	31 December 2011	$0.25
Unquoted director and employee incentive options (Series 2)	1,500,000	31 December 2012	$0.35

Movements in share options

Class B quoted	**2011 No of Options**	**2010 No of Options**
Balance at beginning of the financial period	13,737,832	13,737,832
Exercised	-	-
Closing balance at the end of financial period	13,737,832	13,737,832

Unquoted director and employee options		
Balance at beginning of the financial period	13,350,000	11,000,000
Granted 14 June 2010 (Series 2)	-	2,850,000
Lapsed (Series 1)	-	(500,000)
Lapsed (Series 2)	(1,475,000)	-
Closing balance at the end of financial period	11,875,000	13,350,000

The weighted average remaining contractual life for the share options outstanding at 30 June 2011 is 7.5 months.

The vesting hurdles applicable to the Series 1 and 2 director and employee incentive options are:

	First 50% become exercisable	Second 50% become exercisable
Series 1	Share price trades above $0.50 for ten consecutive days	Share price trades above $1.00 for ten consecutive days
Series 2	Share price trades above $0.60 for ten consecutive days	Share price trades above $1.20 for ten consecutive days

The incentive options were granted to eligible employees and directors in 2009 and 2010. The range of exercise prices for the incentive options is $0.25 to $0.35.
The grant of options was independently valued using generally accepted option valuation models (the Monte Carlo model), which takes into account factors such as share price at the date of grant, exercise price of the option, volatility of the share price, risk free rate and time period until expiry. Accounting standards require the value of the options granted be brought to account over the expected term of vesting of the option benefits to the option holder.

A summary of the key assumptions used in applying the Monte Carlo model to the options granted in the 2010 financial year, and the valuation per option, is as follows.

Date of grant	Share price at date of grant	Exercise price	Volatility of share price	Risk free interest rate	Option life (years)	Valuation per option
14 June 2010	$0.18	$0.35	81%	4.63%	2.5	$0.038

19. Contributed Equity, continued

The valuation of options granted in 2009 and 2010, 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 options granted in 2009	Valuation of options granted in 2010	Total valuation of option expense by year of allocation
2009	191,799	-	191,799
2010	216,269	3,384	219,653
2011	37,392	40,745	78,137
2012	-	15,361	15,361
	445,460	59,490	504,950
Future value of options lapsed in year due to employee resignations	-	49,950	
Total valuation of option grant in year	445,460	109,440	

Capital Management Policy

In managing capital the Board's objective is to ensure the Group continues as a going concern 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.

Gearing ratio (net debt/total capital) is calculated as follows.	Consolidated June 30 2011 $	Consolidated June 30 2010 $
Total borrowings	679,732	2,130,766
Less cash and cash equivalents (to the extent required to cover borrowings)	(56,246)	(1,350,595)
Net debt	623,486	780,171
Total (shareholders deficit)/equity	(3,507,056)	2,139,641
Total capital	(3,507,056)	2,139,641
Gearing ratio	-18%	36%

The shareholders deficit at 30 June 2011 is mainly attributable to the provision for loss on engineering services contract, which results in a distorted gearing ratio. The Group currently does not have a target range for the gearing ratio, and until the Group is generating stable positive cash flows is of the view it should generally hold lower levels of borrowings.

20. Reserves

Employee equity benefits reserve	489,589	411,451
Balance at beginning of period	411,451	191,799
Director and employee incentive option grants – expense for period	78,137	219,652
Balance at end of the period	489,589	411,451

The employee equity benefits reserve relates to the value of director and employee incentive options, the expense of which has been allocated to date.

21. Accumulated Losses

Opening balance	(25,641,525)	(18,544,267)
Current year loss attributable to members of the parent entity	(11,824,250)	(7,097,258)
Closing balance	(37,465,775)	(25,641,525)

22. Reconciliation of the loss to the net cash flows from operations

	June 30 2011 $	June 30 2010 $
Loss after tax	(11,824,250)	(7,097,258)
Non-cash items:		
Depreciation and amortisation	486,376	233,543
Share based payment expenses	78,137	219,652
Employee bonus shares issues	113,254	118,124
Interest on related party loans not paid in cash	396,149	-
Fees on related party loans not paid in cash	325,000	140,000
Loss on disposal of investment in joint controlled entity	637,749	-
Discount on non-current loan receivable	27,144	-
Net movement in provision for costs to complete on EPCM contract	4,724,633	(839,448)
Reversal of tax refund receivable recorded in prior year	-	281,250
Consulting fee settled in shares	-	13,169
Share of associated entities' net results	-	15,239
Capital raising expenses classified as cash flows of financing activities	20,000	-
Changes in net assets and liabilities:		
(Increase)/decrease in trade and other receivables	328,542	(49,120)
(Increase)/decrease in prepayments	2,502	27,576
Increase/(decrease) in trade and other payables	25,371	(411,201)
Movement in provision for employee benefits	50,038	62,609
Net cash flow (used in) operating activities	(4,609,354)	(7,285,865)

23. 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 2011 at which time the Group as lessee has an option to renew for a further 5 year term. 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;

	Company and consolidated June 30 2011 $	Company and consolidated June 30 2010 $
Within one year	116,500	142,076
After one year but not more than five years	485,417	18,589
After more than five years	-	-
	601,917	160,665

Hire purchase and finance lease commitments

The Group has hire purchase and finance lease contracts for plant & equipment and computer software, with a carrying value of $59,849. The contracts expire within 1 to 3 years. The fair value of hire purchase and finance lease contracts approximate their carrying amount. There are no restrictions placed upon the lessee's business operations by entering into these leases.

23. Commitments and Contingencies, continued

Future payments under hire purchase agreements at balance date are:

	Company and consolidated June 30 2011 $	Company and consolidated June 30 2010 $
Within one year	47,182	71,419
After one year but not more than five years	52,421	78,643
After more than five years	-	-
Total repayments	99,603	150,062
Less future finance charges	(14,818)	(19,296)
Present value of minimum payments	84,785	130,766

Capital commitments

There are 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.

24. Key Management Personnel Disclosures

(a) Compensation for Key Management Personnel

	Company and consolidated June 30 2011 $	Company and consolidated June 30 2010 $
Short term employee benefits	954,965	953,971
Long term employee benefits (LSL)	15,002	14,022
Post-employment benefits	77,148	121,190
Share based payment	64,146	177,563
Total compensation	1,111,261	1,266,746

(b) Option holdings of Key Management Personnel

i) Quoted options Class B

30 June 2011	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Total	Exercisable	Not exercisable
	1 July 2010				30 June 2011			
Non-executives								
Les Capelli	955,396	-	-	-	955,396	955,396	955,396	-
Ian Campbell	-	-	-	-	-	-	-	-
Michael Dureau	220,834	-	-	-	220,834	220,834	220,834	-
Shaun Scott	-	-	-	-	-	-	-	-
Executives								
Thomas Rudas	-	-	-	-	-	-	-	-
Richard Rudas	1,653,137	-	-	-	1,653,137	1,653,137	1,653,137	-
David Lymburn	193,900	-	-	-	193,900	193,900	193,900	-
Total	3,023,267	-	-	-	3,023,267	3,023,267	3,023,267	-

24. Key Management Personnel Disclosures, continued

30 June 2010	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Total	Exercisable	Not exercisable
	1 July 2009				30 June 2010			
Non-executives								
Les Capelli	955,396	-	-	-	955,396	955,396	955,396	-
Ian Campbell	-	-	-	-	-	-	-	-
Michael Dureau	220,834	-	-	-	220,834	220,834	220,834	-
Executives								
Thomas Rudas	-	-	-	-	-	-	-	-
Richard Rudas	1,653,137	-	-	-	1,653,137	1,653,137	1,653,137	-
David Lymburn	193,900	-	-	-	193,900	193,900	193,900	-
Total	3,023,267	-	-	-	3,023,267	3,023,267	3,023,267	-

ii) Incentive Options

30 June 2011	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Total	Exercisable	Not exercisable
	1 July 2010				30 June 2011			
Non-executives								
Les Capelli	750,000	-	-	-	750,000	750,000	-	750,000
Ian Campbell	750,000	-	-	-	750,000	750,000	-	750,000
Michael Dureau	750,000	-	-	-	750,000	750,000	-	750,000
Shaun Scott	-				-	-	-	-
Executives								
Thomas Rudas	2,750,000	-	-	-	2,750,000	2,750,000		2,750,000
Richard Rudas	825,000	-	-	-	825,000	825,000	-	825,000
David Lymburn	825,000	-	-	-	825,000	825,000	-	825,000
Total	6,650,000	-	-	-	6,650,000	6,650,000	-	6,650,000

30 June 2010	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Total	Exercisable	Not exercisable
	1 July 2009				30 June 2010			
Non-executives								
Les Capelli	750,000	-	-	-	750,000	750,000	-	750,000
Ian Campbell	750,000	-	-	-	750,000	750,000	-	750,000
Michael Dureau	750,000	-	-	-	750,000	750,000	-	750,000
Executives								
Thomas Rudas	2,750,000	-	-	-	2,750,000	2,750,000	-	2,750,000
Richard Rudas	825,000	-	-	-	825,000	825,000	-	825,000
David Lymburn	825,000	-	-	-	825,000	825,000	-	825,000
Total	6,650,000	-	-	-	6,650,000	6,650,000	-	6,650,000

The incentive options will become exercisable upon achievement of the vesting conditions, as follows. The Options shall vest with the Director or employee in equal portions of one half respectively upon the achievement of each of two vesting hurdles, subject to the Director or employee remaining as a Director or employee of the Group from the date of grant of the Options, until the date of achieving each vesting hurdle.

The two vesting hurdles are;

- Share price trades at an average of $0.50 or higher on any consecutive 10 day period, after 31 December 2009.
- Share price trades at an average of $1.00 or higher on any consecutive 10 day period, after 31 December 2009.

At the date of this report neither of the vesting hurdles had been achieved.

24. Key Management Personnel Disclosures, continued

Shareholdings of Key Management Personnel

iii) Ordinary shares

30 June 2011	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period
	1 July 2010				30 June 2011
Non-executives					
Les Capelli	10,124,152	-	-	(1) 500,000	10,624,152
Ian Campbell	22,582,809	-	-	-	22,582,809
Michael Dureau	1,888,889	-	-	-	1,888,889
Shaun Scott	-	-	-	(2) 600,000	600,000
Executives					
Thomas Rudas	70,299	-	-	(3) 71,181	141,480
Richard Rudas	13,330,215	-	-	(3) 56,944	13,387,159
David Lymburn	1,675,917	-	-	(3) 56,944	1,732,861
Total	49,672,281	-	-	1,285,069	50,957,350

(1) Net change: off market purchases
(2) Net change: holding at date of appointment
(3) Net change: employee loyalty share award

30 June 2009	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period
	1 July 2009				30 June 2010
Non-executives					
Les Capelli	9,643,152	-	-	(1) 481,000	10,124,152
Ian Campbell	14,376,155	-	-	(2) 8,206,654	22,582,809
Michael Dureau	1,666,667	-	-	(3) 222,222	1,888,889
Executives					
Thomas Rudas	-	-	-	(4) 70,299	70,299
Richard Rudas	13,225,087	-	-	(5) 105,128	13,330,215
David Lymburn	1,551,189	-	-	(6) 124,728	1,675,917
Total	40,462,250	-	-	9,210,031	49,672,281

(1) Net change: on market purchases
(2) Net change: placement and underwriting of Share Purchase Plan
(3) Net change: placement
(4) Net change: employee loyalty share award plus Share Purchase Plan
(5) Net change: employee loyalty share award plus Share Purchase Plan
(6) Net change: employee loyalty share award, Share Purchase Plan and market purchases

(c) Loans to Key Management Personnel

The Group did not make any loans to key management personnel during or since the end of the financial year.

25. Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties, unless otherwise stated.

(a) Directors' Remuneration and Retirement Benefits

Details of directors' remuneration and retirement benefits are disclosed in the Remuneration Report and note 24.

(b) Loans from directors

(i) Nichol Bay Holdings Pty Ltd

At the beginning of the year the Company had borrowed $500,000 from Nichol Bay Holdings Pty Ltd, a company controlled by Mr Les Capelli. This loan was unsecured and bore interest at 12% per annum. It was originally due for repayment by 31 March 2010. On 31 August 2010 a loan extension fee of 4% ($20,000 loan extension fee) was paid to extend the repayment date to 31 December 2010.

At 31 August 2010 the Company also entered into a new additional loan facility with Nichol Bay Holdings Pty Limited for $500,000 and a loan establishment fee of 7% ($35,000) was paid. The terms on the combined loan principal of $1,000,000 were;

- Repayment: earlier of 31 December 2010 and the date on which AnaeCo's cash flow position will enable it to safely make the repayment and continue to meet its other cash commitments as and when they fall due.
- If AnaeCo is unable to repay the loan at 31 December 2010 the lender may at its election call for the loan to be extinguished by the issue of shares at a price which will be the 5 day volume weighted average for the 5 trading days immediately prior to a shareholder resolution approving the issue of the shares.
- Interest rate: 12% per annum, calculated daily and paid monthly in cash on drawn funds.
- Security: none.

At 31 December 2010 the loan of $1,000,000 was further extended by the payment of an extension fee of 4% ($40,000). Under the terms of this extension the loan was repayable on the earlier of 30 June 2011 and the date on which AnaeCo's cash flow position will enable it to safely make the repayment and continue to meet its other cash commitments as and when they fall due. These terms were further re-negotiated and on 2 June 2011 the Company and Nichol Bay Holdings Pty Ltd agreed to convert the entire balance owing (principal, accrued interest and fees: value at 30 June 2011 $1,200,806) to equity by the issue of new ordinary shares at an issue price of $0.09 per share. At reporting date this debt to equity conversion was unconditional other than it is subject to shareholder approval. A shareholder meeting to approve the resolution to convert the loan to equity has been convened for October 2011.

In summary, the total of principal owing, interest and fees paid and accrued for the year, is as follows:

Loan principal at beginning of year	Drawn down	Repaid	Loan principal at end of year
500,000	500,000	-	1,000,000

	Charge for the year	Paid in cash	Accrued at end of year
Loan interest	105,806	-	105,806
Fees	95,000	-	95,000
Aggregate of principal, accrued interest and fees			1,200,806

On the basis this debt to equity conversion is unconditional other than for shareholder and regulatory approval, the aggregate amount of principal, accrued interest and fees ($1,200,806) has been classified as contributed equity at 30 June 2011.

(ii) CF2 Pty Ltd as trustee for the CF Trust

At the beginning of the year the Company had borrowed $1,500,000 from CF2 Pty Ltd as trustee for the CF Trust, an entity controlled by Mr Ian Campbell. This loan was unsecured and bore interest at 12% per annum. It was originally due for repayment by 31 March 2010. On 31 August 2010 a loan extension fee of 4% ($60,000 loan extension fee) was paid to extend the repayment date to 31 December 2010.

At 31 August 2010 the Company also entered into a new additional loan facility with CF2 Pty Ltd as trustee for the CF Trust, for $1,000,000 and a loan establishment fee of 7% ($70,000) was paid. The terms on the combined loan principal of $2,500,000 were;

- Repayment: earlier of 31 December 2010 and the date on which AnaeCo's cash flow position will enable it to safely make the repayment and continue to meet its other cash commitments as and when they fall due.
- If AnaeCo is unable to repay the loan at 31 December 2010 the lender may at its election call for the loan to be extinguished by the issue of shares at a price which will be the 5 day

volume weighted average for the 5 trading days immediately prior to a shareholder resolution approving the issue of the shares.

- Interest rate: 12% per annum, calculated daily and paid monthly in cash on drawn funds.
- Security: none.

At 31 December 2010 the loan of $2,500,000 was further extended by the payment of an extension fee of 4% ($100,000). Under the terms of this extension the loan was repayable on the earlier of 30 June 2011 and the date on which AnaeCo's cash flow position will enable it to safely make the repayment and continue to meet its other cash commitments as and when they fall due. These terms were further re-negotiated and on 2 June 2011 the Company and CF2 Pty Ltd as trustee for the CF Trust, agreed to convert $2,925,000 of the balance owing (principal, accrued interest and fees) to equity by the issue of new ordinary shares at an issue price of $0.09 per share. At reporting date this debt to equity conversion was unconditional other than it is subject to shareholder approval. A shareholder meeting to approve the resolution to convert the loan to equity has been convened for October 2011. The remainder of the loan which is not to be converted to equity is scheduled to be repaid out of the proceeds of the next capital raising and is presented as a current liability.

In summary, the total of principal owing, interest and fees paid and accrued for the year, is as follows:

Loan principal at beginning of year	Drawn down	Repaid	Loan principal at end of year
1,500,000	1,000,000	-	2,500,000

	Charge for the year	Paid in cash	Accrued at end of year
Loan interest	289,947	-	289,947
Fees	230,000	-	230,000
Amount not to be converted to equity			(94,947)
Aggregate of principal, accrued interest and fees			2,925,000

On the basis this debt to equity conversion is unconditional other than for shareholder and regulatory approval, the aggregate amount of principal, accrued interest and fees ($2,925,000) has been classified as contributed equity at 30 June 2011.

26. Segment Reporting

The Group has identified its operating segment based on the internal reports that are reviewed and used by the Chief Executive Officer and his management team in assessing performance and in determining the allocation of resources.

The accounting policies applied for internal reporting purposes are consistent with those applied in the preparation of the financial statements.

During the year ended 30 June 2011 the Group received a nominal amount of revenue from engineering services and this was all from a single entity based in Australia.

During the year the Group operated solely in the organic solid waste treatment industry in Australia.

The Group considers the segment assets and liabilities to be consistent with those disclosed in the financial statements.

27. Remuneration of Auditors

	Company and consolidated 2011 $	Company and consolidated 2010 $
Amounts paid or due and payable to the auditors of the parent Company for:		
Audit services, including half year audit review services	75,500	73,220
Other assurance and tax services	32,000	11,000
	107,500	84,220

28. Financial Instruments

(a) Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and short term deposits, unsecured loans, and finance leases and hire purchase contracts.

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 foreign operations or dealings in foreign currency and therefore currency risk is not applicable. 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 2011.

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. While the Group does have policies in place to ensure that sales of its products are made to customers with an appropriate credit rating, it does presently have a concentration of credit risk. This concentration of credit risk arises because of the early stage of development of the Group as it commercialises its technology and therefore products, customer relationships and markets. At 30 June 2011 the Group had one revenue generating contract in place which means a total concentration of credit risk for sales and receivables. The Group anticipates this concentration to dissipate in coming years. Trading terms with customers generally involves payment at milestone events.

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

(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:

	Company and consolidated 2011 $	Company and consolidated 2010 $
Within one year	1,613,552	3,053,384
One year or later and no later than five years	52,421	78,643
Later than five years	-	-
	1,665,973	3,132,027

The provision for loss on the engineering services contract of $5,886,185 (2010: $1,161,552) has not been included in the contractual maturity analysis. This provision is expected to be utilised over the next two years.

28. Financial Instruments, continued

(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:

Consolidated 30 June 2011	Weighted average interest rate	Floating interest rate $	Fixed interest maturing in less than 1 year $	Fixed interest maturing in greater than 1 and less than 5 years $	Non-interest bearing $	Totals $
Financial Assets						
Cash	4.7%	56,246	-	-	-	56,246
Trade and other receivables		-	-	-	144,230	144,230
Receivables – Non current		-	-	-	176,614	176,614
Total Financial Assets		56,246	-	-	320,844	377,090
Financial Liabilities						
Payables		-	-	-	967,731	967,731
Interest bearing liabilities	11.9%	-	635,116	44,616	39,000	718,732
Total Financial Liabilities		-	635,116	44,616	1,006,731	1,686,463
Net Financial Assets (30 June 2011)		56,246	(635,116)	(44,616)	(685,887)	(1,309,373)
Consolidated						
30 June 2010						
Financial Assets						
Cash	3.6%	1,350,595	-	-	-	1,350,595
Trade and other receivables		-	-	-	472,772	472,772
Receivables – Non current		-	-	-	203,758	203,758
Total Financial Assets		1,350,595	-	-	676,530	2,027,125
Financial Liabilities						
Payables		-	-	-	941,965	941,965
Interest bearing liabilities	11.8%	-	2,063,768	66,998	-	2,130,766
Total Financial Liabilities		-	2,063,768	66,998	941,965	3,072,731
Net Financial Assets (30 June 2010)		3,747,705	1,350,595	(2,063,768)	(66,998)	(265,435)

(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 2011 and 2010.
1% interest rate sensitivity increments are considered reasonable in current global financial conditions.

Consolidated 30 June 2011	Carrying amount	Interest rate risk -1%		Interest rate risk +1%	
		Profit	Equity	Profit	Equity
	$	$	$	$	$
Financial Assets					
Cash	56,246	(562)	(562)	562	562
Trade and other receivables	144,230	-	-	-	-
Receivables – Non current	176,614	-	-	-	-
Financial Liabilities					
Payables	967,731	-	-	-	-
Interest bearing liabilities	679,732	6,797	6,797	(6,797)	(6,797)
Total increase/ (decrease)		6,235	6,235	(6,235)	(6,235)

(e) Sensitivity analysis, continued

Consolidated 30 June 2010	Carrying amount	Interest rate risk -1%		Interest rate risk +1%	
		Profit	Equity	Profit	Equity
	$	$	$	$	$
Financial Assets					
Cash	1,350,595	(13,506)	(13,506)	13,506	13,506
Trade and other receivables	472,772	-	-	-	-
Receivables – Non current	203,758	-	-	-	-
Financial Liabilities					
Payables	941,965	-	-	-	-
Interest bearing liabilities	2,130,766	21,308	21,308	(21,308)	(21,308)
Total increase/ (decrease)		7,802	7,802	(7,802)	(7,802)

(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 net fair values, determined in accordance with the accounting policies disclosed in note 2.

29. 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 succeeding financial year, other than;

- On 5 July 2011 the Group issued 25,000,000 ordinary shares in a placement, at $0.06 each, raising $1,500,000
- On 24 August 2011 the Group issued 2,129,441 fully paid ordinary shares to employees under its employee loyalty bonus scheme. (The portion of this share issue attributable to the 2011 financial year was accounted for at year end.)
- On 30 August 2011 the Group raised $1,445,000 in short term unsecured loan funding from Bizzell Capital Partners Pty Ltd.

30. DIVIDENDS

No dividends have been paid or declared during the year.

31. EARNINGS PER SHARE

	Company and consolidated 12 months June 30 2011	Company and consolidated 12 months June 30 2010
Basic earnings/(loss) per share (cents)	(6.1) cents	(4.4) cents
Weighted average number of shares used in the calculation of basic earnings per share	193,384,119	160,987,966
Diluted earnings/(loss) per share (cents)	(6.1) cents	(4.4) cents
(Loss) used in determination of basic and diluted earnings per share	(11,824,250)	(7,097,258)
Securities on issue at balance date which are potentially dilutive to earnings per share		
Quoted class B options	13,737,832	13,737,832
Unquoted director and employee options	11,875,000	13,350,000
Total potentially dilutive securities	25,612,832	27,087,832

These potentially dilutive securities have not been used in calculating diluted earnings per share, since the net result is a loss and a loss per share cannot be attributed to convertible securities which have not yet converted to ordinary shares.
27,129,441 shares have been issued in the period subsequent to 30 June 2011 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 2011 and of their 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 and the Group 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 2011.

On behalf of the Board

Prof. Michael Dureau
Chairman
Perth, 22 September 2011

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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 2011, 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.

Liability limited by a scheme approved
under Professional Standards Legislation

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. 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 at 30 June 2011 and of its performance for the year ended on that date; and

    ii complying with Australian Accounting Standards and the Corporations Regulations 2001.

2. the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the Remuneration Report

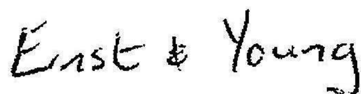
We have audited the Remuneration Report included in pages 7 to 12 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of AnaeCo Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2(a) in the financial report which indicates that the consolidated entity incurred losses of $11,824,250 during the year ended 30 June 2011 and at that date its current liabilities exceeded its current assets by $4,138,903. As a result there is significant uncertainty whether it will continue as a going concern, and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.



Ernst & Young

G Lotter
Partner
Perth
22 September 2011

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