AnaeCo Limited

Appendix 4D and financial report

for the half-year ended 31 December 2010

AnaeCo Limited

Appendix 4D Results for announcement to the market
Six months ended 31 December 2010

The reporting period is the six months ended 31 December 2010 and the previous corresponding period is the six months ended 31 December 2009. This Appendix 4D should be read in conjunction with the half-year financial report for the six months ended 31 December 2010 and considered together with any public announcements made by the Company during the six months ended 31 December 2010 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

Financial Results				**6 months Ended 31 Dec 2010** **$'000**
Revenue from ordinary activities	down	74.0%	to	12
Loss from ordinary activities after tax attributable to members	down	61.5%	to	(5,097)
Loss for the period attributable to members	down	61.5%	to	(5,097)

Dividends

No dividends were paid during the period.

The Company does not propose to pay a dividend in respect of the half year ended 31 December 2010.

There is no dividend reinvestment plan.

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

Net Tangible Asset Backing	**31 December 2010**	**31 December 2009**
Net tangible asset backing per ordinary security (cents)	(2.07)	0.35

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

Associates or joint ventures
During the reporting period the Company sold its 16.4% interest in DiCOM AWT Investment Trust and DiCOM AWT Operations Pty Ltd.

Audit report
The auditor's review report contains an emphasis of matter regarding continuation as a going concern, and in doing so draws attention to the basis on which the half-year financial report has been prepared as disclosed in Note 2(a).

ANAECO LIMITED

and controlled entities

A.B.N. 36 087 244 228

FINANCIAL REPORT

For the half-year ended

31 DECEMBER 2010

AnaeCo Limited
Corporate Directory

ABN 36 087 244 228

Directors

Prof. Michael Dureau (Chairman)

Mr Thomas Rudas (Managing Director)

Mr Richard Rudas (Executive Director)

Mr Gianmario Alessio Capelli (Non-executive Director)

Dr Ian Campbell (Non-executive Director)

Company Secretary

Mr David Lymburn

Registered office and principal place of business

3 Turner Avenue

Technology Park

Bentley, WA 6102

Share Register

Computershare Investor Services

Level 2, Reserve Bank Building

45 St Georges Terrace

Perth WA 6000

Auditors

Ernst & Young

11 Mounts Bay Road

Perth WA 6000

Your directors submit their report on the Consolidated Entity consisting of AnaeCo Limited and entities it controlled for the six months ended 31 December 2010.

DIRECTORS

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

Michael Dureau - Chairman

Les Capelli - Non-executive Director

Ian Campbell - Non-executive Director

Thomas Rudas - Managing Director

Richard Rudas - Executive Director

REVIEW AND RESULTS OF OPERATIONS

The Company's activities for the six months ended 31 December 2010 centred on the process to reach financial close and investment approval for the Western Metropolitan Regional Council (WMRC) Stage 2 project. "Financial Close" which means the project owner (Palisade Regional Infrastructure Fund) approved the investment and executed contracts, took place on 8th December 2010.

In the lead up to that event the Company's activities comprised;

- Engineering and cost reviews in conjunction with Palisade, its advisors and construction partner Monadelphous Group Ltd
- Detailed engineering in preparation for contract award, tendering for fabrication and finalisation of pricing
- Other activities comprising AnaeCo's scope of work within the Design & Construct contract for the WMRC Stage 2 project including, obtaining the requisite environmental, works and development approval.

The net result for the period was a loss after income tax of $5,097,221 (6 months to 31 December 2009, loss of $3,155,247). Net cash outflows from operations for the period was $2,821,527 with a further $1,121,963 expended on Technology Development which has been capitalised as an intangible asset (6 months to 31 December 2009, net cash outflow from operations $4,855,813). There was no revenue generated from engineering services, equipment sales or intellectual property exploitation during the period. Operations and technology development expenditure during the period has been sustained by funding from three sources; sale of investments $1,880,000, share placement $2,000,000 and proceeds from new director loans $1,500,000. Overall there was a net increase in cash on hand for the period of $1,223,901 and the closing cash balance was $2,574,496.

The WMRC project involves the construction in two stages of a DiCOM facility that will process 55,000 tpa of municipal solid waste. Stage 1 involved the construction of a preliminary front end sorting system and a single DiCOM bioconversion vessel. This stage was concluded in February 2010 with the issue of the Independent Engineers Certificate of Satisfaction which verified the Stage 1 performance trials.

Stage 2 involves expansion of the sorting facility and the addition of two more bioconversion vessels. The Design & Construct contract was signed in December 2010 and site work commenced in January 2011. Design & Construct services are being provided by the Company in conjunction with Monadelphous Group Ltd, with AnaeCo responsible for design and commissioning services and Monadelphous responsible for construction.

In December 2010 the Company sold its 16.4% interest in the entities which own the DiCOM facility installed at the WMRC Shenton Park waste transfer station (DiCOM AWT Investment Trust and DiCOM AWT Operations Pty Ltd) to the other investor, Palisade Regional Infrastructure Fund. This decision was taken to enable the Company to apply the funds towards working capital.

Subsequent events

Other than the re-negotiation of loans from related parties which is described in note 8 to the financial statements, there has not been any matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Auditor's Independence Declaration

The auditor's independence declaration for the six months ended 31 December 2010 has been received and is included at page 4 and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors.

Thomas Rudas
Managing Director
Perth, 28 February 2011

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11 Mounts Bay Road
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Auditor's Independence Declaration to the Directors of AnaeCo Limited

In relation to our review of the financial report of AnaeCo Limited for the half-year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

G Lotter
Partner
Perth
28 February 2011

GL:KE:Anaeco:004

AnaeCo Limited

Statement of comprehensive income

For the six months ended 31 December 2010

	Notes	Consolidated 2010 $	Consolidated 2009 $
Continuing operations			
Revenues	3	12,453	48,292
Project delivery costs		(1,679,833)	(1,137,953)
Technology development expense		(726,534)	-
Depreciation and amortisation		(218,981)	(54,813)
Finance costs	4(a)	(534,143)	(204,215)
Employee benefits expense	4(b)	(503,164)	(675,649)
Other expenses	4(c)	(809,270)	(858,313)
Loss on disposal of investments in jointly controlled entities	4(d)	(637,749)	-
Share of net result of jointly controlled entities accounted for using the equity method		-	8,654
Loss from continuing operations before income tax expense		(5,097,221)	(2,873,997)
Income tax (expense) / benefit		-	(281,250)
Net loss after tax and total comprehensive (expense) for the period attributable to members of AnaeCo Limited		(5,097,221)	(3,155,247)
Loss per share for net loss attributable to ordinary equity holders of the parent			
Basic earnings per share (cents)		(2.8)	(2.0)
Diluted earnings per share (cents)		(2.8)	(2.0)

The accompanying notes form part of these financial statements

AnaeCo Limited
Statement of financial position as at 31 December 2010

	Notes	Consolidated 31 December 2010 $	Consolidated 30 June 2010 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		2,574,496	1,350,595
Trade and other receivables	5	429,201	472,772
Other		69,352	16,301
TOTAL CURRENT ASSETS		3,073,049	1,839,668
NON-CURRENT ASSETS			
Trade and other receivables		176,614	203,758
Property, plant & equipment		154,468	186,592
Intangible assets		3,094,315	2,112,421
Investments in jointly controlled entities	6	-	2,517,749
TOTAL NON-CURRENT ASSETS		3,425,397	5,020,520
TOTAL ASSETS		6,498,446	6,860,188
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		1,214,007	941,965
Provision for losses on long term contracts	7	2,242,205	1,161,552
Interest bearing loans and borrowings	8	3,554,342	2,063,768
Provisions		224,626	205,276
TOTAL CURRENT LIABILITIES		7,235,180	4,372,561
NON CURRENT LIABILITIES			
Interest bearing loans and borrowings	8	50,249	66,998
Provisions		226,208	280,988
TOTAL NON CURRENT LIABILITIES		276,457	347,986
TOTAL LIABILITIES		7,511,637	4,720,547
NET (LIABILITIES) / ASSETS		(1,013,191)	2,139,641
(SHAREHOLDERS' DEFICIT)/EQUITY			
Contributed equity	9	29,243,046	27,369,715
Reserves		482,509	411,452
Accumulated losses		(30,738,746)	(25,641,526)
TOTAL (SHAREHOLDERS' DEFICIT)/EQUITY		(1,013,191)	2,139,641

The accompanying notes form part of these financial statements

AnaeCo Limited

Consolidated Cash Flow Statement

For the six months ended 31 December 2010

	2010 $	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,200	25,002
Payments to suppliers and employees	(2,824,129)	(4,863,479)
Interest received	11,253	23,290
Interest paid	(9,851)	(40,626)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(2,821,527)	(4,855,813)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,880,000	-
Expenditure on Technology Development capitalised as intangible assets	(1,121,963)	-
Purchase of property, plant and equipment	(46,789)	(194,883)
NET CASH FLOWS FROM /(USED IN) INVESTING ACTIVITIES	711,248	(194,883)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	2,000,000	-
Costs of fund raising	(139,645)	(140,000)
Proceeds from borrowings	1,500,000	1,512,287
Repayment of borrowings	-	(500,000)
Repayment of finance leases or hire purchase	(26,176)	(29,087)
NET CASH FLOWS FROM FINANCING ACTIVITIES	3,334,179	843,200
NET INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS HELD	1,223,901	(4,207,496)
Cash and cash equivalents at beginning of period	1,350,595	4,255,293
Cash and cash equivalents at end of period	2,574,496	47,797

The accompanying notes form part of these financial statements

AnaeCo Limited

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2010	Issued capital $	Accumulated losses $	Employee benefits equity reserve $	Total equity $
At the beginning of the half year	27,369,715	(25,641,526)	411,452	2,139,641
Loss for the period	-	(5,097,221)	-	(5,097,221)
Total comprehensive (expense) for the period	-	(5,097,221)	-	(5,097,221)
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	12,976	-	71,057	84,033
At the end of the half year	29,243,046	(30,738,746)	482,509	(1,013,191)

The accompanying notes form part of these financial statements

AnaeCo Limited

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2009	Issued capital $	Accumulated losses $	Employee benefits equity reserve $	Total equity $
At the beginning of the half year	22,859,067	(18,544,267)	191,799	4,506,599
Loss for the period	-	(3,155,247)	-	(3,155,247)
Total comprehensive (expense) for the period	-	(3,155,247)	-	(3,155,247)
Transactions with owners in their capacity as owners				
Issue of share capital	20,756	-	-	20,756
Share based payment	-	-	126,352	126,352
At the end of the half year	22,879,823	(21,699,514)	318,151	1,498,460

The accompanying notes form part of these financial statements

1. CORPORATE INFORMATION

The general-purpose condensed consolidated financial statements of AnaeCo Limited and its controlled entities ("the Company") for the six months ended 31 December 2010 ("the half-year financial report") were authorised for issue in accordance with a resolution of the directors on 28 February 2011. AnaeCo Limited is a company incorporated in Australia and limited by shares which are traded on the Australian Securities Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

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

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

The half-year financial report should be read in conjunction with the annual financial report of AnaeCo Limited as at 30 June 2010 and considered together with any public announcements made by the Company during the six months ended 31 December 2010 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

Going Concern

The consolidated entity has net liabilities of $1,103,191 (30 June 2010, net assets of $2,139,641), net current liabilities of $4,162,131 (30 June 2010, net current liabilities of $2,532,893), a net increase in cash and cash equivalents for the six month period of $1,223,901 (six months ended 31 December 2009 a net decrease of $4,207,496) and incurred an operating loss after income tax of $5,097,221 (six months ended 31 December 2009, loss of $3,155,247) for the six months ended 31 December 2010. The consolidated entity does not presently have sufficient funds to meet all of its expenditure commitments for the next 12 months. The consolidated entity'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 Company and consolidated entity to generate profit and positive cash flows; and
- obtaining additional funding as and when required to meet its expenditure commitments.

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 Company will, in the directors' opinion, have access to, sufficient cash to fund administrative and other committed expenditure for a period of not less than 12 months from the date of this report.

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

- The Board is confident that to the extent additional funding is required to fund administrative and other committed expenditure, or new development initiatives, it will be able to raise such funding in the financial markets. The Board has resolved to initiate an immediate share placement to raise around $3,000,000.

- Subsequent to the end of the reporting period, the Board has resolved to accept, subject to shareholder approval, the conversion to equity of the related party loans of $3,500,000 plus approximately $237,000 in accrued interest and fees.

Should the consolidated entity not achieve the matters set out above, there is significant uncertainty whether it will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts, or to the amounts or classification of liabilities that might be necessary should the consolidated entity not be able to continue as a going concern.

b. Significant accounting policies

Apart from changes in accounting policies noted below the half-year financial report has been prepared using the same accounting policies and methods of computation as used in the annual financial statements for the year ended 30 June 2010.

c. Changes in accounting policies

Since 1 July 2010, the consolidated entity has adopted all Accounting Standards and Interpretations, mandatory for annual periods beginning on 1 July 2010.

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

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

	Consolidated	
	6 Months Ended 31 December 2010 $	6 Months Ended 31 December 2009 $
3. REVENUE		
Loss before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:		
Revenue		
Interest received	11,253	23,290
Other revenue	1,200	25,002
	12,453	48,292
4. EXPENSES		
(a) **Finance costs**		
Interest paid to other parties arising on finance leases and hire purchase contracts	9,587	6,662
Interest expense on loans from related parties	172,148	21,796
Interest expense on loans from others	264	4,581
Loan fees paid to related parties	325,000	140,000
Discount on non-current receivable	27,144	-
Other finance costs	-	31,176
	534,143	204,215
(b) **Employee benefits expense**		
Wages and salaries	1,800,524	1,497,578
Defined contribution superannuation plan expense	147,779	127,191
Less labour costs allocated to projects and technology development	(1,631,280)	(1,185,403)
Non-executive directors remuneration	102,108	102,157
Share based payments expense	84,033	134,126
	503,164	675,649
(c) **Other expenses**		
Premises and related expenses	168,411	207,522
Consultants	207,774	264,741
Travel	61,461	92,146
Other	359,707	293,904
	797,353	858,313
(d) **Loss on disposal of investments in jointly controlled entities**		
Sale proceeds	1,880,000	-
Carrying value of investments (refer note 6)	(2,517,749)	-
Loss on disposal	(637,749)	-

5. TRADE AND OTHER RECEIVABLES – CURRENT

	31 December 2010 $	30 June 2010 $
Trade receivables	660	24,545
Loan receivable – DiCOM AWT Investment Trust	340,229	307,284
Other receivables	88,312	140,943
	429,201	472,772

Trade receivables at 31 December 2010 is in accordance with the terms of the contract and no impairment loss is expected.

The loan receivable from DiCOM AWT Investment Trust is unsecured, does not bear interest and is repayable at financial close of Stage 2 of the WMRC Project.

Other receivables is 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.

6. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

During the reporting period the Company sold its investments in DiCOM AWT Investment Trust and DiCOM AWT Operations Pty Ltd (refer note 4(d)), 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.

	31 December 2010 $	30 June 2010 $
Units in DiCOM AWT Investment Trust, at cost	-	2,409,490
Share of net result	-	100,679
Carrying value of investment accounted for using the equity method	-	2,510,169
Shares in DiCOM AWT Operations Pty Ltd, at cost	-	24,056
Share of net result	-	(16,476)
Carrying value of investment accounted for using the equity method	-	7,580
Total investments accounted for using the equity method	-	2,517,749

7. LONG TERM CONSTRUCTION CONTRACTS

Provision for costs to complete	2,242,205	1,161,552

This is a provision for the estimated costs to the Company for the completion of its contractual obligations in relation to the provision of engineering services on the WMRC Project.

8. INTEREST BEARING LOANS AND BORROWINGS

Current		
Loans from related parties	3,500,000	2,000,000
Hire purchase liabilities	54,342	63,768
	3,554,342	2,063,768

Loans from related parties comprises: (i) a loan from an entity controlled by Mr Ian Campbell of $2,500,000 and (ii) a loan from an entity controlled by Mr Gianmario Alessio Capelli of $1,000,000. These loans are unsecured and bear interest at 12%.

8. INTEREST BEARING LOANS AND BORROWINGS (continued)

At 31 December 2010 there is accrued interest and fees owing on these loans totalling $496,770 which is included as Trade and Other Payables in Current Liabilities.

At balance date the repayment terms state that the loans are repayable at the earlier of, 30 June 2011, or when the Company has sufficient funds to make the repayment. If the Company is unable to repay the loan at 30 June 2011 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.

Subsequent to the end of the financial year the repayment terms were re-negotiated as follows:

(i) Loan from entity controlled by Mr Campbell

$2,600,000 of the loan balance outstanding (including accrued interest and fees) will be converted to equity based upon a share issue price of $0.11 (closing price on 18 February 2011), subject to shareholder approval at an extraordinary general meeting to be held on or about 11th April 2011 and adoption of a Business Plan which will be acceptable to the lending directors as well as the remaining members of the Board. Interest will not be applicable on this amount of outstanding loan after 18th February 2011, unless the shareholder approval is not given at the shareholder meeting.

The remaining balance of accrued and interest and fees will be repayable in cash at 30 June 2011.

(ii) Loan from entity controlled by Mr Capelli

The entire loan balance outstanding will be converted to equity based upon a share issue price of $0.11 (closing price on 18 February 2011), subject to shareholder approval at an extraordinary general meeting to be held on or about 11th April 2011 and adoption of a Business Plan which will be acceptable to the lending directors as well as the remaining members of the Board. Interest will not be applicable on this amount of outstanding loan after 18th February 2011, unless the shareholder approval is not given at the shareholder meeting.

If shareholder approval is not obtained for either loan conversion, the terms will revert to those in place prior to 18th February.

	31 December 2010 $	30 June 2010 $
Non Current		
Hire purchase liabilities	50,249	66,998

9. CONTRIBUTED EQUITY

Issued Capital	30,572,222	28,559,246
Costs of capital raising	(1,329,176)	(1,189,531)
	29,243,046	27,369,715

Ordinary shares

Movements in ordinary fully paid shares	Date	Shares	$
Balance at 1 July 2009		156,911,302	23,809,878
Employee share bonus	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		-	118,124
Balance at 30 June 2010		177,811,913	28,559,246
Share issue – employee share bonus scheme	Sept ‘10	728,334	12,976
Share issue - placement	Dec ‘10	20,000,000	2,000,000
Balance at 31 December 2010		198,540,247	30,572,222

9. CONTRIBUTED EQUITY (continued)

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

Options

As at 31 December 2010 the details of share options on issue are as follows:

Class	Number	Expiry	Exercise price
Class B quoted	13,737,832	31 May 2012	$1.00
Director options – unquoted	5,825,000	31 December 2011	$0.25
Employee options - unquoted	4,675,000	31 December 2011	$0.25
Employee options - unquoted	1,500,000	31 December 2012	$0.35

10. DIVIDENDS

No dividends were paid or proposed during the 6 months ended 31 December 2010.

11. COMMITMENTS AND CONTINGENCIES

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

The Company has no capital commitments at the date of this report. Liabilities relating to completion of project delivery of the WMRC Project are provided for under Long Term Construction Contracts and included as current liabilities (refer note 7).

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

The Company is not aware of any other material contingent liabilities or circumstances which may give rise to a material contingent liability.

12. SEGMENT REPORTING

The Group has identified its operating segment based on the internal reports that are reviewed and used by the Managing Director 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 reporting period the Group did not receive any revenue from engineering services or from the commercial exploitation of the DiCOM technology.

During the reporting period 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.

13. EVENTS AFTER THE BALANCE SHEET DATE

Other than the re-negotiation of loans from related parties as described in note 8, there has not been any matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

AnaeCo Limited
Directors' Declaration

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

In the opinion of the directors:

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

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of the performance for the six months ended on that date; and

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

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

On behalf of the Board

Thomas Rudas
Managing Director
Perth, 28 February 2011

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To the members of AnaeCo Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of AnaeCo Limited, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of AnaeCo Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of AnaeCo Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 2(a) in the financial report which indicates that the consolidated entity incurred losses of $5,097,221 during the six month period ended 31 December 2010 and at that date had net liabilities of $1,013,191 and net current liabilities of $4,162,131. As a result there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore 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

Ernst & Young

G Lotter
Partner
Perth
28 February 2011