ANAECO LIMITED

A.B.N. 36 087 244 228

ANNUAL FINANCIAL REPORT 2012

For the year ended 30 June 2012

Corporate Directory

Directors

Mr Shaun Scott (Chairman)
Mr Patrick Kedemos (CEO and Managing Director)
Mr Gianmario Alessio ("Les") Capelli (Non-executive Director)
Dr Ian Campbell (Non-executive Director)

Company Secretary

Mr David Lymburn

Registered office

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Technology Park
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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 2012.

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.

Shaun Scott – Chairman
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:

- Dart Energy Ltd – appointed 21 July 2010
- Acer Energy Ltd – appointed 11 March 2011
- Site Group International Limited – appointed 2 August 2011

Patrick Kedemos – Managing Director & CEO
MBA INSEAD, MSc (Management)
Appointed as a Director on 20 January 2012.
Mr Kedemos has almost 20 years of managerial and professional experience, including 16 years in increasingly senior roles within the international industrial, medical and environmental gases industry. He joined AnaeCo in August 2011 from the Air Liquide Group, a Fortune 500 company within which he gained a wealth of experience in business and management roles in positions as General Manager, Sales and Marketing Manager, Strategy Manager in Healthcare and Financial Controller for a major efficiency programme. Most recently, Mr Kedemos was the General Manager of the industrial and medical gases joint-venture companies between Air Liquide and Wesfarmers.

Mr Kedemos is the Honorary Consul for France in Western Australia.

He has not served as a director of any other listed company in the past three years.

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:

- Clarity Ltd – appointed 28 November 2005

Professor Michael Dureau – resigned 30 November 2011
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.

DIRECTORS' REPORT

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.

Richard Rudas – resigned 30 November 2011
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.

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 2012 and the number of meetings attended by each director is as follows:

	Meetings held during tenure	Meetings attended
Shaun Scott	11	11
Patrick Kedemos	6	6
Les Capelli	11	10
Ian Campbell	11	11
Michael Dureau	3	3
Richard Rudas	3	3

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

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

	Fully Paid Ordinary Shares
Shaun Scott	14,002,934
Patrick Kedemos	2,250,000
Les Capelli	39,041,837
Ian Campbell	124,752,254

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 $20,062,895 (2011: loss $11,824,250).

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.

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). Since December 2010 activity on this project has been the design and construction of 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). 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. At the date of this report construction activities in many areas are near complete and pre-commissioning activities are underway. AnaeCo's commissioning team has been mobilised and in the coming weeks will progressively receive hand-over of areas of the facility from the construction team.

Whilst the WMRC DiCOM Expansion Project has been underway, the Group has been actively working to expand its commercialisation activities. This has involved a targeted campaign aimed at the major waste management companies in Australia as well as existing waste industry participants in the Asian region who have been identified as potential early adopters of the innovative DiCOM technology. This concerted effort has produced results with memoranda of understanding signed with Transpacific Cleanaway in Australia, and Dynagreen in China (a wholly owned subsidiary of the Beijing State Owned Assets Management Co. Ltd).

The Group continues to field many enquiries from potential customers and interested parties, and is confident that with the pending commissioning of the WMRC project, this interest will flow to committed and secured orders in due course.

A substantial body of intellectual property has been created over a number of years in developing the DiCOM™ System. 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. Two new patent applications have been filed and a further eight are being prepared for filing. Patent registration is one of the main strategies the Group has adopted to protect and manage its intellectual property.

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

- Completing commissioning of the WMRC DiCOM™ facility, and
- Securing and commencing new revenue generating projects.

Refining and standardising the detailed design and IP package which is the DiCOM™ System, and commercialising this through technology transfer and licensing arrangements both in Australia and overseas.

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. As the project approaches the conclusion of construction activities it is now apparent that the cost of equipment and materials will not come in below budget and accordingly AnaeCo is not forecasting to earn a fee on this contract. In addition, AnaeCo has shouldered additional design and equipment costs in completing the DiCOM™ technology development, in parallel with its implementation on the WMRC project.

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 throughout the financial year.

At 30 June 2012, the Group had cash reserves of $356,457 and net current liabilities of $17,336,797.

Net current liabilities are stated after including a provision for the expenditure to be incurred in the 2013 financial year on completing the delivery of contractual obligations under the Design & Construct contract for the WMRC DiCOM Expansion project, and a provision for the expenditure to be incurred in completing the commissioning of the DiCOM™ technology which is being installed at the WMRC project.

Subsequent to 30 June and up to the date of this report the Group raised $931,000 by drawings on loan facilities and new equity issues.

The Group is currently pursuing a capital raising of $15 million to fund future technology development and project delivery obligations, and 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 2012 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 2012.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

- The Group raised additional equity funding in July 2011 by placement of 29,166,667 ordinary shares at $0.06 each, raising $1,750,000.
- The Group raised additional equity funding in October 2011 by placement of 49,818,000 ordinary shares at $0.05 each, raising $2,490,900.
- The Group raised additional funding between December 2011 and March 2012 under a Share Purchase Plan, by the issue of 62,500,000 ordinary shares at $0.04 each, raising $2,500,000.
- The Group converted $4,264,592 of debt, borrowed from related parties of Dr Ian Campbell and Mr G.A. Capelli, to equity in October 2011 by the issue of 47,384,352 ordinary shares at $0.09 each.
- In April 2012 the Group entered into a Convertible Loan Agreement with CF2 Pty Ltd as trustee for the CF Trust, an entity controlled by Dr Ian Campbell. This Loan is a facility of up to $10 million and further details of the terms and conditions are provided in note 25 to these financial statements.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely developments in the forthcoming financial year include;

- Successful commissioning of the WMRC DiCOM Expansion Project.
- Further development of the DiCOM™ System and its component parts through technology transfer and licensing arrangements.
- Development of new opportunities for DiCOM™ facilities both in Australia and overseas.

DIRECTORS’ REPORT

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 2 July 2012 the Group issued 44,000,000 ordinary shares to Monadelphous Group Limited at an issue price of $0.048 per share, amounting to $2,112,000, as payment for costs associated with the WMRC DiCOM Expansion Project on which AnaeCo and Monadelphous are providing design and construct services in a joint arrangement.
- On 30 July 2012 CF2 Pty Ltd as trustee for the CF Trust (“CF2”) converted loan funds of $2,181,000 to equity at a conversion price of $0.045. This resulted in the issue of 48,466,667 ordinary shares to CF2.
- On 21 August 2012 the Group borrowed $250,000 from Nichol Bay Holdings Pty Ltd, and entity controlled by Mr. G.A. Capelli, under a short term loan arrangement. Further details of the terms and conditions of this loan are provided in note 25 to these financial statements.
- On 27 August 2012 the Group raised $200,000 in a placement by the issue of 5,000,000 shares at $0.04 each.
- On 29 August 2012 the Group made a draw-down of $250,000 on the CF2 Convertible Loan.
- On 25 September 2012 the Group executed a Loan Agreement to borrow up to $2,000,000 from an unrelated party. This loan bears interest at 12% and is secured by a charge over the assets and undertakings of the Group.

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 Company.

For the purposes of this report, the term ‘executive’ includes the Managing Director & Chief Executive Officer (“MD & CEO”) and the Chief Financial Officer (“CFO”). Therefore the Key Management Personnel are Les Capelli (Non-executive Director – appointed 28 November 2008), Ian Campbell (Non-executive Director – appointed 13 May 2009), Shaun Scott (Non-executive Director – appointed 7 March 2011), Patrick Kedemos (MD & CEO – appointed 25 July 2011, and appointed as Managing Director on 20 January 2012), Michael Dureau (Non-executive Director – appointed 23 August 2005, resigned 30 November 2011),Richard Rudas (Executive Director – appointed 21 April 1999, resigned 30 November 2011) and David Lymburn (CFO and Company Secretary – appointed 10 July 2006).

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 for the 2012 financial year.

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 base annual remuneration of $70,000 each, inclusive of superannuation. Presently there are no additional fees for participation in Board committees, although consulting fees are payable when Non-executive directors are required to work outside the normal remit for Non-executive directors.

Non-executive directors have each been issued 750,000 ordinary shares under the Long Term Incentive share plan. Details of the terms and conditions of these incentive shares are provided elsewhere in this Remuneration Report. These shares 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 practices to benchmark market rates for KMP, and may if it is considered appropriate, engage external consultants to provide independent advice. In 2012 no external consultants were engaged to provide advice.

The Group has entered into detailed contracts of employment with the MD & CEO and the CFO. 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 (base salary plus related superannuation contributions) 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. In the current year no external advice was taken.

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 key Group operational targets are, the successful commissioning of the DiCOM™ technology on the WMRC DiCOM Expansion Project, securing sufficient capital to sustain operations, and the commercialisation of the DiCOM™ technology. 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.

Structure

Actual STI payments that may be granted to each executive depend on the extent to which specific targets, aligned to Group operational targets, set at the beginning of the financial year are met. The targets may consist of a number of stated objectives or key performance indicators (KPIs), which cover financial, non-financial, corporate and individual measures of performance.

The maximum STI bonus that may be payable under the current contracts is expressed as a percentage of annual base salary. For the MD & CEO that percentage is 50%, and for the CFO it is 30%.

Entitlement to the STI is partly weighted towards company performance measured as 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 the stated objectives.

For both the MD & CEO and CFO the weightings for STI entitlement are 40% for individual performance and 60% for company performance.

For the 2012 year, both the MD & CEO and CFO earned 70% of their STI entitlements. This comprised 40% for individual performance and 30% for company performance. The individual performance of the MD & CEO was assessed by the Chairman, and the individual performance of the CFO was assessed by the MD & CEO. The company performance portion was assessed by the Board by calculating that AnaeCo's TSR achieved the 50th percentile relative to the peer group of comparable ASX listed companies. The peer group comprised eleven other companies operating in the waste and recycling sector. These eleven ASX listed companies are: ToxFree Solutions (TOX), Transpacific (TPI), Stericorp (STP), Novarise (NOE), Electrometals (EMM), Papyrus Australia (PPY), Intec (INL), Carbon Polymers(CBP), CMA Corporation (CMV), Dolomatrix (DMX), Medivac (MDV). After removing the best and worst performer from the group of twelve, AnaeCo Ltd achieved 5th place. TSR is calculated as the combination of share price growth over the financial year and gross dividend yield, expressed as a percentage of share price at the beginning of the year.

The STI will be awarded in the form of fully paid shares. The number of shares allocated is 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.

For the 2012 year the details of STI award to the MD & CEO and CFO are as follows:

	Date of grant	Share price at date of grant	% of STI earned	Gross value of STI	Fair value per right	Number of shares expected to be issued	Number of rights vested
Patrick Kedemos	25 July 2011	$0.06	70%	$112,367	$0.048	1,252,229	1,252,229
David Lymburn	25 July 2011	$0.06	70%	$54,806	$0.048	611,042	611,042

<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.

Structure

LTI grants to executives are delivered under an Employee Share Plan.

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

After subscription, the LTI shares are issued as ordinary shares, and the employee enjoys the same rights and benefits as any other shareholder, apart from the vesting conditions.

LTI shares are issued subject to vesting conditions, which mean they cannot be traded until the escrow period passes and the trading restriction is lifted. Once the trading restriction has been lifted the employee may sell the shares.

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

The nature of this scheme is to provide an incentive to cause the share price to rise over the term of an employee's service, as well as retaining the employee's service, and hence there are no specific performance conditions attaching to these LTI shares.

The share price must rise above the award price before the employee receives any benefit. This structure of incentive was selected to align the longer term interests of KMP with the interests of shareholders.

Details of the number and vesting conditions of all LTI shares issued to KMP are 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.

MD & CEO Milestone and Exceptional Outcome Bonus package

In addition to the STI and LTI arrangements described above the Group has arranged a Milestone and Exceptional Outcome Bonus package for MD &CEO Mr Patrick Kedemos, as follows:

Milestone Bonus

Subject to satisfaction of agreed milestones, a $500,000 bonus to be paid in AnaeCo shares based on the VWAP of the 5 business days prior to 30 June 2013;

The milestones are;

- WMRC DiCOM Expansion Project Completion, which means, receiving the certificate of Practical Completion from the Principal as required under the Design & Construct contract, or waiver of the requirement to achieve that certificate by the Principal.
- Close a new contract, which means, signing a contract (and the satisfaction of any conditions precedent) for the installation of a DiCOM facility with any party (customer).
- Raise new capital of $10m or more.

Regardless of the outcome of the milestones above, if at any time prior to 30 June 2013 an AnaeCo 20 day VWAP is greater than 15 cents all criteria will be deemed to be satisfied.

It has not vested or lapsed at the date of this report.

The fair value of the Milestone Bonus at the grant date of 23 March 2012 is $500,000. This fair value represents a share based payment and will be expensed over the vesting period until 30 June 2013. The fair value per right in this Milestone Bonus at award date is $0.048, based on a share price at date of grant of $0.048 and an estimated number of shares to be issued of 10,416,667. The vesting date is 30 June 2013. None of these rights vested, and none lapsed during the year.

Exceptional Outcome Bonus

A $1,000,000 bonus to be paid in AnaeCo shares based on the WVAP of the 5 business days prior to the bonus becoming payable if at any time between now and 30 June 2015 an AnaeCo 20 day VWAP is greater than 50 cents.

The fair value of the Exceptional Outcome Bonus at the grant date of 23 March 2012 is $45,000. This fair value represents a share based payment and will be expensed over the vesting period until 30 June 2015. The fair value per right in this Exceptional Outcome Bonus at award date is $0.0225, based on a share price at date of grant of $0.048 and an estimated number of shares to be issued of 2,000,000. The vesting date is 30 June 2015. None of these rights vested, and none lapsed during the year.

Achievement of the Milestone Bonus and the Exceptional Outcome Bonus will be determined by the Board.

These particular milestones and share price hurdles were chosen to align the interests of the MD & CEO with the key Group operational targets. To receive these bonuses the MD & CEO must remain in service throughout the term.

Historical financial performance

The Group's financial performance during the 2012 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).

	2012	2011	2010	2009	2008
Net loss after tax	20,062,895	11,824,250	7,097,258	6,506,321	5,110,804
(loss) per share (cents)	(6.4)	(6.1)	(4.4)	(5.2)	(5.8)
Share price at 30 June (cents)	4.0	7.5	16.0	29.5	22.5

Employment contracts

The Group has entered into employment contracts with Patrick Kedemos (MD & CEO), and David Lymburn (CFO). The contract with Patrick Kedemos has a commencement date of 25 July 2011 and the contract with David Lymburn is dated 28 September 2012.

Under the contracts the executives will receive fixed remuneration of, respectively, $321,048, and $260,980 per annum (excluding mandatory superannuation). 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 contracts with Patrick Kedemos and David Lymburn have no fixed term. 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 3 months in the case of David Lymburn.

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

2012	**Short term benefits**		**Post employment benefits**	**Share based payments**			**Long term benefits**		
	Salary and fees $	**Non monetary benefits [2] $**	**Super-annuation benefits $**	**STI bonus [1] $**	**Milestone & Exceptional Bonus[4] $**	**Long term incentive (LTI) [3] $**	**Long service leave $**	**Total $**	**% performance related**
Non-executives									
Shaun Scott	76,000	2,121	-	-	-	4,615	-	82,736	5.6%
Les Capelli	70,000	2,121	-	-	-	3,553	-	75,675	4.7%
Ian Campbell	64,220	2,121	5,780	-	-	4,245	-	76,366	5.6%
Michael Dureau	29,165	2,121	-	-	-	-	-	31,286	-
Executives									
Patrick Kedemos	249,420	2,121	22,448	112,367	103,462	13,845	-	503,663	45.6%
David Lymburn	200,306	3,416	49,638	54,806	-	8,430	12,691	329,287	19.2%
Richard Rudas	211,663	2,698	19,298	-	-	-	7,322	240,981	-
Total remuneration	900,774	16,719	97,164	167,173	103,462	34,688	20,013	1,339,993	

(1) The STI bonuses payable to Mr Kedemos and Mr Lymburn in respect of the 2012 year will be satisfied by the issue of shares. Mr Kedemos will be issued 1,252,229 fully paid ordinary shares, subject to shareholder approval. Mr Lymburn will be issued 611,042 fully paid ordinary shares.

(2) Includes directors and officers insurance premium of $14,850, allocated across all KMP.

(3) Value of Long Term Incentive shares allotted during the year, for which the expense is allocated to this period.

(4) Value of share based payment in the Milestone & Exceptional Outcome Bonus, for which the expense is allocated to this period.

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	6,407	247,316	0.6%
Total remuneration	902,990	-	51,975	77,148	29,800	34,346	21,409	1,117,668	

(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.

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

On 31 July 2011, 45,430 shares issued under the loyalty bonus scheme vested (1/12th of the 2011 award to KMP).

<u>Ordinary shares and unquoted options comprising long term incentive (LTI) remuneration</u>

All of the unquoted long term incentive options held by KMP at the beginning of the year expired on 31 December 2011.

During the year the Company issued 6,000,000 LTI shares to KMP. All of these LTI shares were issued at $0.05 per share. The number of LTI shares allotted were determined by the Board, and in doing so consideration was taken of the potential incentive amount relative to the KMP's total remuneration package. The grant of these LTI shares, which are considered to be "in substance options" or rights, under generally accepted accounting principles, was independently valued using the Black & Scholes option valuation model which takes into account factors such as the share price at the date of grant, volatility of the share price, risk free rate and time period until vesting. Accounting standards require the value of the options granted to be brought to account over the expected term of vesting the benefits to the holder.

At the date of this report there are 6,000,000 LTI shares held by KMP which are subject to service conditions. None of these LTI shares have vested or been forfeited during the year. There is no expiry date on these vesting rights, but there must be continuity of employment to receive the vesting benefits.

	Number of LTI rights	Date of grant	Share price at date of grant	Valuation per right	Exercise price of each right	Vesting conditions: Number of shares	Vesting conditions: Release from escrow and first exercise date
Shaun Scott	750,000	15 Nov 2011	$0.05	$0.028	$0.05	750,000	30 Nov 2012
Ian Campbell	750,000	21 Nov 2011	$0.05	$0.026	$0.05	750,000	30 Nov 2012
Les Capelli	750,000	30 Nov 2011	$0.05	$0.021	$0.05	750,000	30 Nov 2012
Patrick Kedemos	2,250,000	15 Nov 2011	$0.05	$0.028	$0.05	750,000	25 July 2012
						750,000	25 July 2013
						750,000	25 July 2014
David Lymburn	1,500,000	18 Nov 2011	$0.05	$0.025	$0.05	500,000	18 Dec 2012
						500,000	18 Dec 2013
						500,000	18 Dec 2014
Total	6,000,000						

END OF REMUNERATION REPORT

DIRECTORS' REPORT

SHARE OPTIONS

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

Unquoted Options

	Number	Expiry	Exercise price
Series 2	800,000	31 December 2012	$0.35

During the year 700,000 unquoted options lapsed 30 days following the cessation of employment contracts.

Options which expired or lapsed during the year are as follows.

	Number	Expiry	Exercise price
Unquoted incentive Series 1	10,375,000	31 December 2011	$0.25
Quoted Class B	13,737,832	31 May 2012	$1.00

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

No options were exercised during the year. 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 $14,850.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

Once completed, operation of the DiCOM™ facility at Shenton Park will be subject to provisions of an operating licence issued by the relevant Government Department. Whilst AnaeCo is conducting the commissioning of this facility, it will be responsible for ensuring compliance with the conditions of the operating licence. Upon completion of commissioning and handover of the facility to the owner's operations team, the responsibility for compliance with the operating licence will pass to the owner.

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 13 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; $12,000.

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

Patrick Kedemos
Managing Director & CEO
Perth, Western Australia
28 September, 2012

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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 2012, 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 September 2012

GL:KE:ANAECO:020

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	Notes	Consolidated 12 months June 30 2012 $	Consolidated 12 months June 30 2011 $
Revenue	3(a)	133,053	191,225
Other income	3(b)	1,105,856	-
Project delivery costs	4(a)	(9,458,663)	(6,042,856)
Provision for commissioning DiCOM™ technology	4(b)	(6,500,000)	-
Technology development expense	4(c)	(656,975)	(1,311,831)
Depreciation and amortisation expense	4(d)	(611,992)	(486,376)
Finance costs	4(e)	(922,832)	(789,144)
Employee benefits expense	4(f)	(1,532,853)	(1,157,126)
Other expenses	4(g)	(1,618,489)	(1,590,393)
Loss on disposal of investments in jointly controlled entities	4(h)	-	(637,749)
Loss before income tax expense		(20,062,895)	(11,824,250)
Income tax benefit	5	-	-
Net loss after tax attributable to members of AnaeCo Limited and total comprehensive expense for the year	21	(20,062,895)	(11,824,250)
Earnings per share for loss attributable to the ordinary equity holders of the Company	31		
Basic loss per share		(6.4) cents	(6.1) cents
Diluted loss per share		(6.4) cents	(6.1) cents

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	Consolidated June 30 2012 $	Consolidated June 30 2011 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	356,457	56,246
Trade and other receivables	7	2,125,014	144,230
Other	8	6,330	13,799
TOTAL CURRENT ASSETS		2,487,801	214,275
Non Current Assets			
Receivables	7	-	176,614
Property, plant and equipment	9	71,497	111,097
Intangible assets	10	4,411,704	4,099,908
TOTAL NON CURRENT ASSETS		4,483,201	4,387,619
TOTAL ASSETS		6,971,002	4,601,894
LIABILITIES			
Current liabilities			
Trade and other payables	13	1,401,909	967,731
Provision for loss on engineering services contract	14	9,583,955	2,433,467
Provision for commissioning DiCOM™ technology	15	6,500,000	-
Interest bearing loans and borrowings	16	2,104,639	635,116
Non interest bearing liabilities	17	-	39,000
Provisions	18	234,095	277,864
TOTAL CURRENT LIABILITIES		19,824,598	4,353,178
Non Current Liabilities			
Provision for loss on engineering services contract	14	1,916,045	3,452,718
Interest bearing loans and borrowings	16	2,792	44,616
Provisions	18	180,920	258,438
TOTAL NON CURRENT LIABILITIES		2,099,757	3,755,772
TOTAL LIABILITIES		21,924,355	8,108,950
NET (LIABILITIES)		(14,953,353)	(3,507,056)
EQUITY			
Contributed equity	19	42,020,225	33,469,130
Reserves	20	555,092	489,589
Accumulated losses	21	(57,528,670)	(37,465,775)
TOTAL SHAREHOLDERS' (DEFICIT)		(14,953,353)	(3,507,056)

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2012

	Notes	Consolidated 12 months June 30 2012 $	Consolidated 12 months June 30 2011 $
Cash flows from operating activities			
Receipts from customers		122,324	149,823
Interest received	3	10,730	41,402
Payments to suppliers and employees		(5,602,985)	(4,779,727)
Interest paid		(47,196)	(20,852)
Net cash flows (used in) operating activities	22	(5,517,127)	(4,609,354)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		14,539	-
Proceeds from sale of investments		-	1,880,000
Purchases of property, plant and equipment	9	(43,749)	(16,581)
Purchases of computer software classified as intangible assets	10	(2,045)	(17,289)
Expenditure on technology development capitalised as intangible assets	10	(1,542,543)	(2,364,498)
Net cash flows used in investing activities		(1,573,798)	(518,368)
Net cash flows from financing activities			
Proceeds from the issue of shares	19	6,701,900	2,000,000
Share subscription monies held on trust	17	-	39,000
Costs of fundraising		(712,270)	(159,645)
Proceeds from borrowings		2,845,000	2,000,000
Repayment of borrowings		(1,443,494)	(45,982)
Net cash flows from financing activities		7,391,136	3,833,373
Net increase /(decrease) in cash and cash equivalents		300,211	(1,294,349)
Cash and cash equivalents at beginning of period		56,246	1,350,595
Cash and cash equivalents at end of period	6	356,457	56,246

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

Consolidated For the year ended 30 June 2012	**Issued capital** **$**	**Accumulated losses** **$**	**Employee benefits reserve** **$**	**Total equity** **$**
At the beginning of the year	33,469,130	(37,465,775)	489,589	(3,507,056)
Loss for the period	-	(20,062,895)	-	(20,062,895)
Total comprehensive (expense) for the period	-	(20,062,895)	-	(20,062,895)
Transactions with owners in their capacity as owners				
Issue of share capital	8,899,357	-	-	8,899,357
Costs of capital raising	(520,924)	-	-	(520,924)
Share based payment	33,877	-	65,503	99,380
Debt for equity conversion of loans	138,785	-	-	138,785
At the end of the year	42,020,225	(57,528,670)	555,092	(14,953,353)

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	-	78,138	191,392
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)

1 Corporate Information

The consolidated financial report of AnaeCo Limited ("the Company") and its controlled entities ("the Group") for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 28 September 2012.

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 consolidated 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 2012 and the Statement of Financial Position of the Group at that date. Comparative figures are for the year ended 30 June 2011.

2 Summary of significant accounting policies

(a) Basis of Preparation

The consolidated 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, with the exception of the CF2 Convertible Loan which is carried at fair value.

The consolidated financial report is presented in Australian dollars, and the Company is a for-profit entity.

Going Concern

The Group has net liabilities of $14,953,353 (previous period, net liabilities of $3,507,056) has net current liabilities of $17,336,797 (previous period net current liabilities of $4,138,903) and incurred an operating loss after income tax of $20,062,895 (previous period, loss of $11,824,250) for the year ended 30 June 2012.

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. This provides confidence for the Group's prospects of generating positive cash flow from operations in the future.
- On 2 April 2012 the Group entered into a $10 million Convertible Loan facility with CF2 Pty Ltd as trustee of the CF Trust ("CF2"), an entity controlled by Director, Dr Ian Campbell. The terms of this Convertible Loan were approved by shareholders on 17 May 2012. This Convertible Loan facility represents a strong indication of support from our largest shareholder. Up to 30 June 2012 the Group borrowed $1,950,000 on this facility. As disclosed in note 25, the borrower may issue draw down notices for $1.0 million at any time during the term. After 30 June 2012 the lender may decline a draw-down notice at its discretion.

- On 26 July 2012 the Group made a draw-down on the Convertible Loan with CF2 amounting to $231,000. On 30 July 2012 CF2 converted to equity the total amount of principal outstanding on the facility at that date, being $2,181,000, and also the establishment fee on the $10 million facility. This loan conversion and the payment of the establishment fee in shares, converted to equity $2,450,000 of the 30 June 2012 current liabilities.

  A further draw-down of $250,000 was made on 29 August 2012. At the date of these accounts the amount remaining undrawn on the facility is $7,569,000. A summary of the terms and conditions of the CF2 Convertible Loan is given in note 25.
- On 2 July 2012 the Group issued 44,000,000 shares to Monadelphous Group Limited in payment of costs due relating to work undertaken on the WMRC DiCOM Expansion Project, which AnaeCo and Monadelphous are undertaking in joint venture. The DiCOM™ technology has the potential to open a substantial pipeline of future infrastructure work for Monadelphous, both in Australia and overseas.
- On 22 August 2012 the Group borrowed $250,000 on a short term loan arrangement from Nichol Bay Holdings Pty Ltd, a company controlled by Director, Mr Les Capelli. This is a further endorsement of support from one of our longest standing shareholders.
- On 26 August 2012 the Group raised $200,000 in a share placement by the issue of 5,000,000 shares at $0.04 per share.
- AnaeCo Limited will be submitting a claim for the new Research & Development Tax Incentive in respect of the 2012 tax year. The Company is satisfied that it meets the criteria to qualify for a cash refund, and is confident the expenditure to be claimed in relation to the DiCOM technology will satisfy the tests of eligibility. The amount of eligible expenditure in the 2012 year is estimated to be $4,000,000 and if approved, this would lead to a cash refund of $1,800,000.
- On 25 September 2012 the Group executed a Loan Agreement to borrow up to $2,000,000 from an unrelated party. This loan bears interest at 12% and is secured by a charge over the assets and undertakings of the Group.
- The Group is currently working on a Capital Raising to raise $15 million in new equity, for which it is receiving strong interest. Due diligence is in progress with a number of parties.

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

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

- success with commercialising its 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 2011, the Group has adopted all Accounting Standards and Interpretations, mandatory for annual periods beginning on or before 1 July 2011.

None have had an impact on accounting policies of the Group.

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.

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.

Ref	Title	Summary	Application date of standard	Application date for Group
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	1 July 2012
AASB 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 UIG-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. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	1 July 2013
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-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 it 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. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.	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 judgments 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

Ref	Title	Summary	Application date of standard	Application date for Group
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance 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 when fair value is required or permitted. 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. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	1 July 2013
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	1 July 2013
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. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) For-profit entities in the private sector that have public accountability (as defined in this Standard) (b) The Australian Government and State, Territory and Local Governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities (c) Public sector entities other than the Australian Government and State, Territory and Local Governments. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1.	1 July 2013	1 July 2013

Ref	Title	Summary	Application date of standard	Application date for Group
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.	1 January 2013	1 July 2013
AASB 2012-4	Amendments to Australian Accounting Standards – Government Loans	AASB 2012-4 adds an exception to the retrospective application of Australian Accounting Standards under AASB 1 First-time Adoption of Australian Accounting Standards to require that first-time adopters apply the requirements in AASB 139 Financial Instruments: Recognition and Measurement (or AASB 9 Financial Instruments) and AASB 120 Accounting for Government Grants and Disclosure of Government Assistance prospectively to government loans (including those at a below-market rate of interest) existing at the date of transition to Australian Accounting Standards.	1 January 2013	1 July 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle; and	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The Standard addresses a range of improvements, including the following: • repeat application of AASB 1 is permitted (AASB 1); and • clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).	1 January 2013	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities;	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	1 July 2015

Ref	Title	Summary	Application date of standard	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be 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. (b) 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. (d) Where the fair value option is used for financial liabilities the change in fair value is to be 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. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1 January 2013	1 July 2013

(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 AnaeCo Inc. and AnaeCo Asia Pte Ltd.

AnaeCo UK Limited (a United Kingdom incorporated company), AnaeCo Inc (a United States incorporated company) and AnaeCo Asia Pte Ltd (a Singapore 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 service is provided.

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 directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

(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 on initial recognition.

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) 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 the assets that it controls and the liabilities it incurs. 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, other than those classified as fair value through profit and loss, 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.

Borrowings that are classified as fair value through profit and loss include the CF2 Convertible Loan, which has been designated upon initial recognition as at fair value through profit and loss, because of its derivative features. The fair value is determined using appropriate valuation techniques. Such techniques may include:

- Recent arms length market transactions,
- Referenced to the current fair value of another instrument that is substantially the same, and
- Discounted cash flow analysis or other valuation models.

(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:

1. Incentive option scheme - Each non-executive director, each key management personnel and all eligible employees were granted options in previous years to acquire shares in the Group. Some of these options expired during the year, and others have an expiry of 31 December 2012. No new incentive options were issued under this scheme during the year.
2. Long term incentive share scheme - Each non-executive director, each key management personnel and other senior members of staff, were granted long term incentive shares, under which shares vest to the employee over specified periods of time.
3. Employee loyalty bonus share scheme – In previous years the Group award shares to all employees as a bonus for continuity of service. The last award under this scheme occurred for the year to 31 July 2011.
4. Milestone and Exceptional Outcome Bonus for the Managing Director & CEO.

Details of all share based remuneration schemes and the number of shares and options which have been issued under those schemes 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.

The long term incentive scheme (LTI) is accounted for as an in substance option plan due to the limited recourse nature of the loan.

(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.

Shares in the Company held under the long term incentive scheme (LTI) are classified and disclosed as employee reserved shares and deducted from equity.

(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. In this regard development activities include, the design, construction and operation of pilot plants not of a scale for commercial use and the design, construction and testing of alternative or improved materials processes or systems.

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. 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) Government Grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is deducted from the asset to which it relates, the net value of which is amortised over its expected useful life.

The Group is treating its expected receipt of the new R&D Tax Incentive refund as a government grant.

		Consolidated 12 months June 30 2012 $	Consolidated 12 months June 30 2011 $
3(a)	**Revenue**		
	Engineering services	8,032	146,523
	Interest income	10,730	41,402
	Other revenue	114,291	3,300
		133,053	191,225
3(b)	**Other Income**		
	Government grant - R&D Tax Incentive	1,105,856	-
4(a)	**Project delivery costs**		
	Expenditure on long term engineering contracts not previously accounted for	-	328,231
	Movement in provision for costs to complete	9,450,743	5,577,755
	Cost of labour for engineering services billings	7,920	136,870
		9,458,663	6,042,856
4(b)	**Provision for commissioning DiCOM™ technology**	6,500,000	-
4(c)	**Technology development expense**		
	Expenditure on technology development	2,199,518	3,676,329
	Less capitalised as an intangible asset	(1,542,543)	(2,364,498)
		656,975	1,311,831
4 (d)	**Depreciation and amortisation expense**		
	Depreciation of property, plant & equipment	73,343	92,076
	Amortisation of patents, licences and intellectual property	538,649	394,300
		611,992	486,376
4 (e)	**Finance costs**		
	Interest paid to other parties arising on finance leases and hire purchase contracts	16,016	17,497
	Interest expense on loans from related parties	164,978	396,149
	Interest expense on loans from others	31,180	3,355
	Loan establishment and extension fees paid to related parties	500,000	325,000
	Other finance costs	210,658	47,143
		922,832	789,144
4 (f)	**Employee benefits expense**		
	Wages and salaries	3,567,475	3,304,038
	Defined contribution superannuation plan expense	312,797	293,078
	Less labour costs allocated to project cost and technology development	(2,691,965)	(2,892,715)
	Non-executive directors remuneration	245,165	261,333
	Share based payments expense	99,380	191,392
		1,532,852	1,157,126
4(g)	**Other expenses**		
	Premises and related expenses	371,142	335,430
	Consultants and professional advisors	577,250	549,045
	Travel	137,295	158,856
	Other overheads	532,802	547,062
		1,618,489	1,590,393

	Consolidated 12 months June 30 2012 $	Consolidated 12 months June 30 2011 $
4(h) Loss on disposal of investments in jointly controlled entities		
Sale proceeds	-	1,880,000
Carrying value of investments	-	(2,517,749)
Loss on disposal	-	(637,749)

5. Income Tax		
The major components of income tax expense are:		
Income statement		
Current income tax		
Current income tax (charge) /benefit	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	-	-
Income tax benefit as reported in the income statement	-	-
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	(20,062,895)	(11,824,250)
At the statutory income tax rate of 30% (2011:30%)	6,018,868	3,547,275
Non assessable income	331,757	-
Expenditure not allowable for income tax purposes	(769,191)	(258,185)
Unrecognised tax losses	(5,581,434)	(3,289,090)
	-	-
Deferred income tax		
Deferred tax assets not recognised		
Unrecognised tax losses	9,867,470	9,356,511
Temporary differences	3,873,847	1,152,799
	13,741,317	10,509,310
Temporary differences comprises:		
Provision for completion of long term contract	2,712,763	1,771,796
Provision for commissioning DiCOM™ technology	1,950,000	-
Unamortised balance of business related expense deductions	392,446	264,500
Employee benefits provisions	124,504	160,890
Other	209,524	151,656
Intangibles – development expenditure	(1,515,390)	(1,196,043)
	3,873,847	1,152,799

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 2012 $	Consolidated June 30 2011 $
6. Cash and Cash Equivalents		
Cash at bank and in hand	356,457	17,246
Share application monies held in trust	-	39,000
	356,457	56,246
7. Trade and Other Receivables		
Current		
Trade receivables	5,870	25,019
Loans receivable - DiCOM AWT Investment Trust	231,064	-
R&D tax incentive receivable	1,800,000	-
Other receivables	88,080	119,211
	2,125,014	144,230

Trade receivables at 30 June 2012 are in accordance with the terms of the contract and no impairment loss is expected.

The R&D tax incentive receivable is based on eligible expenditure which can be claimed under the R&D Tax Incentive scheme, for which the rate of refund is $0.45 per $1.00 of eligible expenditure.

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, and all receivables are expected to be received in full.

	2012 $	2011 $
Non current		
Loan receivable - DiCOM AWT Investment Trust	-	203,758
Discount applied to non-current receivable	-	(27,144)
	-	176,614
8. Other Assets (Current)		
Prepayments	6,330	13,799
9. Property, Plant and Equipment		
Property, plant and equipment at cost	595,157	582,690
Less accumulated depreciation	(531,566)	(518,221)
	63,591	64,469
Property, plant and equipment purchased under hire purchase or finance lease	90,371	147,584
Less accumulated depreciation	(82,465)	(100,956)
	7,906	46,628
Total Property, plant and equipment at cost	685,528	730,274
Less accumulated depreciation	(614,031)	(619,177)
Net carrying amount of property, plant and equipment	71,497	111,097
Movements in carrying values during the year:		
Balance at 1 July 2011	111,097	186,592
Additions	43,748	16,581
Disposals	(10,005)	-
Depreciation expense	(73,343)	(92,076)
Net carrying amount at 30 June 2012	71,497	111,097

Refer to note 16 for details of encumbrances over property, plant and equipment.

	Consolidated June 30 2012 $	Consolidated June 30 2011 $
10. Intangibles		
Reconciliation of carrying amounts:		
Development expenditure (i)		
At beginning of year	3,986,810	1,946,565
Capitalised during the year	1,542,543	2,364,498
R&D Tax Incentive offset	(694,144)	-
At end of year	4,835,209	4,311,063
Amortisation expense	(478,053)	(324,253)
At end of year, net of accumulated amortisation	4,357,156	3,986,810
Patents and trademarks		
At beginning of period, net of accumulated amortisation	50,121	55,737
Amortisation expense	(5,616)	(5,616)
At end of year, net of accumulated amortisation	44,505	50,121
Computer software		
At beginning of year, net of accumulated amortisation	62,978	110,120
Capitalised during the year	2,045	17,289
At end of year	65,023	127,409
Amortisation expense	(54,980)	(64,431)
At end of year, net of accumulated amortisation	10,043	62,978
At cost (gross carrying amount)		
Development expenditure	5,956,057	4,413,514
R&D Tax Incentive offset	(694,144)	-
Patents and trademarks	101,143	101,143
Computer software	177,506	175,460
Accumulated amortisation	(1,128,858)	(590,209)
Net carrying amount	4,411,704	4,099,908

(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. In this financial year the impairment test, based on estimated fair value less cost to sell, concluded there was no impairment of the intangible asset. Fair value less cost to sell has been determined using a discounted cash flow analysis. The factors which were evaluated when measuring impairment included; 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. The discount rate applied was 20%.

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 2013.

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 such 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.

	Company June 30 2012 $	Company June 30 2011 $

11. Investment in controlled entities

	equity interest %	equity interest %
AnaeCo UK Ltd (incorporated in United Kingdom)	100	100
AnaeCo Inc. (incorporated in United States)	100	100
AnaeCo Asia Pte Ltd (incorporated in Singapore)	100	-

12. Parent Entity Information

	2012 $	2011 $
Information relating to AnaeCo Limited:		
Current assets	2,486,831	225,876
Total assets	6,970,310	4,613,696
Current liabilities	19,824,598	4,353,178
Total liabilities	21,924,355	8,108,950
Net liabilities	(14,954,045)	(3,495,254)
Contributed equity	42,020,225	33,469,130
Accumulated losses	(57,529,362)	(37,453,973)
Employee equity benefits reserve	555,092	489,589
Total shareholders' equity	(14,954,045)	(3,495,254)
Net loss of the parent entity	(20,075,388)	(11,736,638)
Total comprehensive (loss) of the parent entity	(20,075,388)	(11,736,638)

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

13. Trade and Other Payables

Trade payables	381,201	637,068
Other payables and accrued expenses	1,020,708	330,663
	1,401,909	967,731

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.

	Consolidated June 30 2012 $	Consolidated June 30 2011 $

14. Provision for loss on Engineering Services Contract

Current	9,583,955	2,433,467
Non-current	1,916,045	3,452,718
	11,500,000	5,886,185
Movement in provision for costs to complete		
At beginning of period	5,886,185	1,161,552
Project expenditure applied against the provision	(3,836,928)	(853,122)
Provision arising in the period	9,450,743	5,577,755
At the end of the period	11,500,000	5,886,185

The provision for costs to complete at 30 June 2012 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 middle of calendar year 2013.

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

There are no commitments or contingencies relating to the jointly controlled operation as at 30 June 2012, (2011: nil).

Additional disclosures for contracts in progress at balance date		
Current contracts		
Losses recognised	17,419,222	7,968,479
Aggregate costs incurred to date	(5,919,222)	(2,082,294)
	11,500,000	5,886,185
Progress billings	-	-
	11,500,000	5,886,185

15. Provision for commissioning DiCOM™ technology

Current	6,500,000	-

This provision is for the estimated costs to complete the development and commissioning of the DiCOM technology, which is being installed at full operational scale for the first time at the WMRC DiCOM Expansion Project.

16. Interest Bearing Loans and Borrowings

Current		
Loans from related parties (refer note 25(b))	2,071,140	94,947
Hire purchase liabilities (i)	33,499	40,169
Other loan unsecured	-	500,000
	2,104,639	635,116
Non Current		
Hire purchase liabilities (i)	2,792	44,616

(i) Hire purchase liabilities are secured against the asset being acquired using this equipment finance.

	Consolidated June 30 2012 $	Consolidated June 30 2011 $
17. Non-interest bearing liabilities (Current)		
Share subscription monies held in trust	-	39,000

Share subscription monies held on trust in the prior year, represents application monies received as at 30 June 2011 for a share placement that was settled on 5 July 2011.

	Consolidated June 30 2012 $	Consolidated June 30 2011 $
18. Provisions (Current and Non Current)		
(Current)		
Employee benefits – annual leave	234,098	277,864
(Non Current)		
Employee benefits – long service leave	180,920	258,438
Number of employees at reporting date	26	23

19. Contributed Equity	Company June 30 2012 $	Company June 30 2011 $
Issued Capital		
398,869,105 (2011 ; 198,540,247) fully paid ordinary shares	44,282,826	30,672,500
Debt to equity conversion	-	4,125,806
	44,282,826	34,798,306
Costs of capital raising	(1,850,101)	(1,329,176)
8,250,000 reserved shares(2)	(412,500)	-
	42,020,225	33,469,130

Movements in issued capital	Date	2012 Shares	2012 $	2011 Shares	2011 $
Ordinary fully paid shares					
Balance at 30 June 2010				177,811,913	28,559,246
Employee share bonus	Sept '10			728,334	12,976
Share issue – Placement	Dec '10			20,000,000	2,000,000
Shares to be issued post balance date				-	100,278
Balance at 30 June 2011		198,540,247	30,672,500	198,540,247	30,672,500
Placement	July '11	25,000,000	1,500,000		
Employee share bonus	Aug '11	2,129,441	33,877		
Debt to equity conversion	Oct '11	47,384,352	4,264,592		
Placement	Oct '11	24,826,667	1,283,000		
Placement	Jan '12	29,158,000	1,457,900		
Share Purchase Plan	Jan – Mar '12	62,500,000	2,500,000		
Director and employee share incentive (2)	Jan – June '12	8,250,000	412,500		
Placement	April '12	1,080,398	46,457		
Shares to be issued post balance date (1)		-	2,112,000		
		398,869,105	44,282,826		

(1) On 2 July 2012 the Company issued 44,000,000 shares to Monadelphous Group Limited at an issue price of $0.048, pursuant to a transaction dated 29 June 2012.

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

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.

Movements in Class B quoted options	2012 No of Options	2011 No of Options
Balance at beginning of the financial period	13,737,832	13,737,832
Exercised	-	-
Expired 31 May 2012	(13,737,832)	-
Closing balance at the end of financial period	-	13,737,832

Share Based Incentive Options

As at 30 June 2012 details of share options on issue is as follows;

Class	Number	Expiry	Exercise price
Unquoted director and employee incentive options (Series 2)	800,000	31 December 2012	$0.35

The Series 2 incentive option scheme was introduced in 2010 to allow eligible employees to participate in the reward of a rise in the share price if that occurred over the term of the option. There were no specific performance conditions attached to these options. Further details regarding vesting, valuation and accounting treatment are given below.

Movements in Share Based Incentive Options

Unquoted director and employee incentive options	2012 No of Options	2011 No of Options
Balance at beginning of the financial period	11,875,000	13,350,000
Expired (Series 1)	(10,375,000)	-
Lapsed (Series 2)	(700,000)	(1,475,000)
Closing balance at the end of financial period	800,000	11,875,000

The weighted average remaining contractual life for the share options outstanding at 30 June 2012 is 6 months.

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

- the first 50% become exercisable when the share price trades above $0.60 for ten consecutive days, and
- the second 50% becomes exercisable when the share price trades above $1.20 for ten consecutive days.

The incentive options were granted to eligible employees in 2010.
The grant of options was independently valued using a generally accepted option valuation model (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

The valuation of options granted in 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 2010**
2010	3,384
2011	40,745
2012	15,361
	59,490
Value of options lapsed due to employee resignations	49,950
Total valuation of option grant in year	109,440

19. Contributed Equity, continued

Long Term Incentive (LTI) shares

LTI grants to executives and management are delivered under an Employee Share Plan.

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

After subscription, the LTI shares are issued as ordinary shares, and the employee enjoys the same rights and benefits as any other shareholder, apart from the vesting conditions.

LTI shares are issued subject to vesting conditions, which mean they cannot be traded until the escrow period passes and the trading restriction is lifted. Once the trading restriction has been lifted the employee may sell the shares.

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

The nature of this scheme is to provide an incentive to cause the share price to rise over the term of an employee's service, as well as retaining the employee's service, and hence there are no specific performance conditions attaching to these LTI shares.

LTI shares are considered to be "in substance options" or rights, under generally accepted accounting principles, and accordingly are accounted for similar to options.

During the year the Company issued 8,250,000 LTI rights to KMP and management. All of these LTI shares were issued at $0.05 per share. The number of LTI shares allotted were determined by the Board, and in doing so consideration was taken of the potential incentive amount relative to the employees' total remuneration package. The grant of these LTI rights, was independently valued using the Black & Scholes option valuation model which takes into account factors such as the share price at the date of grant, volatility of the share price, risk free rate and time period until vesting. Accounting standards require the value of the rights granted to be brought to account over the expected term of vesting the benefits to the holder.

At the date of this report there are 8,2500,000 LTI rights held by KMP and management which are subject to service conditions. None of these LTI rights have vested or been forfeited during the year. There is no expiry date on these vesting rights, but there must be continuity of employment to receive the vesting benefits.

	Number of LTI rights	Date of grant	Share price at date of grant	Valuation per share	Exercise price of each right	Vesting conditions: Number of shares	Vesting conditions: Release from escrow and first exercise date
Shaun Scott	750,000	15 Nov 2011	$0.05	$0.028	$0.05	750,000	30 Nov 2012
Ian Campbell	750,000	21 Nov 2011	$0.05	$0.026	$0.05	750,000	30 Nov 2012
Les Capelli	750,000	30 Nov 2011	$0.05	$0.021	$0.05	750,000	30 Nov 2012
Patrick Kedemos	2,250,000	15 Nov 2011	$0.05	$0.028	$0.05	750,000	25 July 2012
						750,000	25 July 2013
						750,000	25 July 2014
David Lymburn	1,500,000	18 Nov 2011	$0.05	$0.025	$0.05	500,000	18 Dec 2012
						500,000	18 Dec 2013
						500,000	18 Dec 2014
Others	2,250,000	May 2012	$0.05	$0.022	$0.05	750,000	31 March 2013
						750,000	31 March 2014
						750,000	31 March 2015
Total	8,250,000						

The grant of these LTI rights was independently valued using the Black & Scholes option valuation model which takes into account factors such as the share price at the date of grant, volatility of the share price, risk free rate and time period until vesting.

19. Contributed Equity, continued

A summary of the key assumptions used in applying the Black & Scholes model to the LTI rights granted in the year other than those noted in the table above, is as follows:

	Volatility factor	Risk free rate
Shaun Scott	102%	3.2%
Ian Campbell	101%	3.2%
Les Capelli	96%	3.2%
Patrick Kedemos	102%	3.2%
David Lymburn	100%	3.2%
Others	84%	2.8%

The valuation of LTI rights granted in 2012, 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 LTI rights granted in 2012**
2012	42,736
2013	68,613
2014	68,613
2015	31,161
Total valuation of LTI rights grant in year	211,123

MD & CEO Milestone and Exceptional Outcome Bonus package

During the year the Group has arranged a Milestone and Exceptional Outcome Bonus package for MD &CEO Mr Patrick Kedemos, as follows:

Milestone Bonus

Subject to satisfaction of agreed milestones, a $500,000 bonus to be paid in AnaeCo shares based on the VWAP of the 5 business days prior to 30 June 2013;

The milestones are;

- WMRC DiCOM Expansion Project Completion, which means, receiving the certificate of Practical Completion from the Principal as required under the Design & Construct contract, or waiver of the requirement to achieve that certificate by the Principal.
- Close a new contract, which means, signing a contract (and the satisfaction of any conditions precedent) for the installation of a DiCOM facility with any party (customer).
- Raise new capital of $10m or more.

Regardless of the outcome of the milestones above, if at any time prior to 30 June 2013 an AnaeCo 20 day VWAP is greater than 15 cents all criteria will be deemed to be satisfied.

It has not vested or lapsed at the date of this report.

The fair value of the Milestone Bonus at the grant date of 23 March 2012 is $500,000. This fair value represents a share based payment and will be expensed over the vesting period until 30 June 2013. The fair value per right in this Milestone Bonus at award date is $0.048, based on a share price at date of grant of $0.048 and an estimated number of shares to be issued of 10,416,667. The vesting date is 30 June 2013. None of these rights vested, and none lapsed during the year. The amount expensed in the current year is $100,000, and the remainder of the fair value ($400,000) will be expensed in 2013.

Exceptional Outcome Bonus

A $1,000,000 bonus to be paid in AnaeCo shares based on the WVAP of the 5 business days prior to the bonus becoming payable if at any time between now and 30 June 2015 an AnaeCo 20 day VWAP is greater than 50 cents.

The fair value of the Exceptional Outcome Bonus at the grant date of 23 March 2012 is $45,000. This fair value represents a share based payment and will be expensed over the vesting period until 30 June 2015. The fair value per right in this Exceptional Outcome Bonus at award date is $0.0225, based on a share price at date of grant of $0.048 and an estimated number of shares to be issued of 2,000,000. The vesting date is 30 June 2015. None of these rights vested, and none lapsed during the year.

19. Contributed Equity, continued

The grant of rights was independently valued using a generally accepted option valuation model (the Monte Carlo model), which takes into account factors such as share price at the date of grant, volatility of the share price, risk free rate and time period until expiry and probability of vesting. Accounting standards require the value of the rights granted be brought to account over the expected term of vesting of the rights to the holder.

A summary of the key assumptions used in applying the Monte Carlo model to the rights granted in the 2012 financial year, and the valuation per right, is as follows.

Date of grant	Share price at date of grant	Volatility of share price	Risk free interest rate	Life (years)	Valuation per right
23 March 2012	$0.048	100%	3.72%	3.25	$0.0225

The valuation of options granted in 2012, 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 2012**
2012	3,462
2013	13,846
2014	13,846
2015	13,846
Total valuation of option grant in year	45,000

Short Term Incentive (STI) shares

Shares may be issued to KMP and management under the Short Term Incentive (STI) scheme.

Actual STI payments that may be granted to each executive depend on the extent to which specific targets, aligned to Group operational targets, set at the beginning of the financial year are met. The targets may consist of a number of stated objectives or key performance indicators (KPIs), which cover financial, non-financial, corporate and individual measures of performance.

The maximum STI bonus that may be payable under the current contracts is expressed as a percentage of annual base salary. For the MD & CEO that percentage is 50%, and for the CFO it is 30%.

Entitlement to the STI is partly weighted towards company performance measured as 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 the stated objectives.

For both the MD & CEO and CFO the weightings for STI entitlement are 40% for individual performance and 60% for company performance.

For the 2012 year, both the MD & CEO and CFO earned 70% of their STI entitlements. This comprised 40% for individual performance and 30% for company performance. The individual performance of the MD & CEO was assessed by the Chairman, and the individual performance of the CFO was assessed by the MD & CEO. The company performance portion was assessed by the Board by calculating that AnaeCo's TSR achieved the 50th percentile relative to the peer group of comparable ASX listed companies. The peer group comprised eleven other companies operating in the waste and recycling sector. These eleven ASX listed companies are: ToxFree Solutions (TOX), Transpacific (TPI), Stericorp (STP), Novarise (NOE), Electrometals (EMM), Papyrus Australia (PPY), Intec (INL), Carbon Polymers(CBP), CMA Corporation (CMV), Dolomatrix (DMX), Medivac (MDV). After removing the best and worst performer from the group of twelve, AnaeCo Ltd achieved 5th place. TSR is calculated as the combination of share price growth over the financial year and gross dividend yield, expressed as a percentage of share price at the beginning of the year.

The STI will be awarded in the form of fully paid shares. The number of shares allocated is 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.

For the 2012 year the details of STI award to the MD & CEO and CFO are as follows:

	Date of grant	Share price at date of grant	% of STI earned	Gross value of STI	Fair value per right	Number of shares expected to be issued	Number of rights vested
Patrick Kedemos	25 July 2011	$0.06	70%	$112,367	$0.048	1,252,229	1,252,229
David Lymburn	25 July 2011	$0.06	70%	$54,806	$0.048	611,042	611,042

19. Contributed Equity, continued

A summary of the key assumptions used in valuing the STI rights granted in the 2012 financial year other than those noted in the table above, is as follows.

Volatility of share price	Risk free interest rate
100%	3.72%

The full amount of this STI was expensed in the current year.

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 2012 $	Consolidated June 30 2011 $
Total borrowings	2,107,431	679,732
Less cash and cash equivalents (to the extent required to cover borrowings)	(356,457)	(56,246)
Net debt	1,750,974	623,486
Total (shareholders deficit)/equity	(14,953,353)	(3,507,056)
Total capital	(14,953,353)	(3,507,056)
Gearing ratio	-12%	-18%

The shareholders deficit at 30 June 2012 is mainly attributable to the provision for loss on engineering services contract and the provision for commissioning the DiCOM™ technology, which results in a distorted gearing ratio. The Group currently does not have a target range for the gearing ratio.

20. Reserves

Employee equity benefits reserve	555,092	489,589
Balance at beginning of period	489,589	411,451
Director and employee incentive option grants – expense for period	65,503	78,138
Balance at end of the period	555,092	489,589

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	(37,465,775)	(25,641,525)
Current year loss attributable to members of the parent entity	(20,062,895)	(11,824,250)
Closing balance	(57,528,670)	(37,465,775)

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

	June 30 2012 $	June 30 2011 $
Loss after tax	(20,062,895)	(11,824,250)
Non-cash items:		
Depreciation and amortisation	611,992	486,376
Share based payment expenses	99,380	78,137
Accrual for employee bonus shares issued after year end	-	113,254
Interest on related party loans not paid in cash	164,978	396,149
Fees on related party loans not paid in cash	500,000	325,000
Net movement in provision for costs to complete on engineering services contract	5,613,814	4,724,633
Provision for commissioning DiCOM™ technology	6,500,000	-
Project delivery costs settled by share issue	2,112,000	-
Capital raising expenses classified as cash flows of financing activities	237,803	20,000
Other Income – R&D Tax Incentive refund	(1,105,856)	-
Gain on disposal of motor vehicle	(4,534)	-
Loss on disposal of investment in joint controlled entity	-	637,749
Discount on non-current loan receivable	-	27,144
Changes in net assets and liabilities:		
(Increase)/decrease in trade and other receivables	(4,169)	328,542
(Increase)/decrease in prepayments	7,468	2,502
Increase/(decrease) in trade and other payables	(65,821)	25,371
Movement in provision for employee benefits	(121,288)	50,038
Net cash flow (used in) operating activities	(5,517,127)	(4,609,354)

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 2016. 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 2012 $	Company and consolidated June 30 2011 $
Within one year	150,762	116,500
After one year but not more than five years	380,155	485,417
After more than five years	-	-
	530,918	601,917

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 $7,906. 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 2012 $	Company and consolidated June 30 2011 $
Within one year	39,322	47,182
After one year but not more than five years	3,277	52,421
After more than five years	-	-
Total repayments	42,599	99,603
Less future finance charges	(6,308)	(14,818)
Present value of minimum payments	36,291	84,785

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 2012 $	Company and consolidated June 30 2011 $
Short term employee benefits	917,493	954,965
Long term employee benefits (LSL)	20,013	21,409
Post-employment benefits	97,164	77,148
Share based payments	305,323	64,146
Total compensation	1,339,993	1,117,668

(b) Options and rights held by Key Management Personnel

i) Quoted options Class B

30 June 2012	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other - expired	Balance at end of period	Total	Exercisable	Not exercisable
	1 July 2011				30 June 2012			
Non-executives								
Les Capelli	955,396	-	-	(955,396)	-	-	-	-
Ian Campbell	-	-	-	-	-	-	-	-
Michael Dureau	220,834	-	-	(220,834)	-	-	-	-
Shaun Scott	-	-	-	-	-	-	-	-
Executives								
Richard Rudas	1,653,137	-	-	(1,653,137)	-	-	-	-
David Lymburn	193,900	-	-	(193,900)	-	-	-	-
Total	3,023,267	-	-	(3,023,267)	-	-	-	-

24. Key Management Personnel Disclosures, continued

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	-

ii) Incentive Options (the class which were exercisable at $0.25 and expired on 31 December 2011)

30 June 2012	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other – expired 31 Dec 2011	Balance at end of period	Total	Exercisable	Not exercisable
	1 July 2011				30 June 2012			
Non-executives								
Les Capelli	750,000	-	-	(750,000)	-	-	-	-
Ian Campbell	750,000	-	-	(750,000)	-	-	-	-
Michael Dureau	750,000	-	-	(750,000)	-	-	-	-
Shaun Scott	-	-	-	-	-	-	-	-
Executives								
Richard Rudas	825,000	-	-	(825,000)	-	-	-	-
David Lymburn	825,000	-	-	(825,000)	-	-	-	-
Total	3,900,000	-	-	(3,900,000)	-	-	-	-

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

iii) Details of the MD & CEO's interest in shares through the Milestone and Exceptional Outcome Bonus, are disclosed in note 19 and in the Remuneration Report. On the basis that this scheme was introduced in the current year, there was no interest in share rights at the beginning of the year and amounts in existence at the end of the year are disclosed in note 19.

iv) Details of the MD & CEO's and CFO's interest in shares through the Short Term Incentive scheme, are disclosed in note 19 and in the Remuneration Report. On the basis that this scheme was introduced in the current year, there was no interest in share rights at the beginning of the year and amounts in existence at the end of the year are disclosed in note 19.

24. Key Management Personnel Disclosures, continued

(c) Shareholdings of Key Management Personnel

i) Ordinary shares

30 June 2012	Balance at beginning of period	Granted as remuneration(5)	Options exercised	Net change other	Balance at end of period
	1 July 2011				30 June 2012
Non-executives					
Les Capelli	10,624,152	750,000	-	(1)27,667,685	39,041,837
Ian Campbell	22,582,809	750,000	-	(2)47,616,667	70,949,476
Shaun Scott	600,000	750,000	-	(3)12,652,934	14,002,934
Michael Dureau	1,888,889	-	-	(4)(1,888,889)	-
Executives					
Patrick Kedemos	-	2,250,000	-	-	2,250,000
David Lymburn	1,732,861	1,667,742	-	-	3,400,603
Richard Rudas	13,387,159	-	-	(4) (13,387,159)	-
Total	50,815,870	6,167,742	-	72,661,238	129,644,850

(1) Includes, debt to equity conversion 13,717,685, off market purchase 2,000,000 and placement 11,950,000.
(2) Includes, debt to equity conversion 33,666,667, off market purchase 2,000,000 and placement 11,950,000.
(3) Includes, on market purchases 477,157, off market purchase 2,000,000 and placements 9,425,777.
(4) Resignation as a director.
(5) Includes 6,000,000 shares issued under the Long Term Incentive (LTI) arrangements, which have been accounted for as "in substance options". See note 19 for further details.

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

(d) 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, other than in relation to the funding of Long Term Incentive shares, which are accounted for as "in substance options". Details on the terms of issue of the LTI shares are included in the Remuneration Report and in note 19.

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 ("Nichol Bay")

At the beginning of the year the Group had borrowed $1,200,806 (including capitalised interest and fees) from Nichol Bay, a company controlled by Mr Les Capelli. This loan was unsecured and bore interest at 12% per annum.

On 2 June 2011 the Group and Nichol Bay agreed to convert the entire balance owing (principal, capitalised interest and fees) to equity by the issue of new ordinary shares at an issue price of $0.09 per share. At 30 June 2011 this debt to equity conversion was unconditional other than shareholder approval. A shareholder meeting on 6 October 2011 approved the conversion of the loan to equity. With further interest charges from 1 July 2011 until the date of conversion the loan balance converted was $1,234,592, resulting in the issue of 13,717,685 ordinary shares to Nichol Bay. Interest paid to Nichol Bay on the loan in this financial year was $33,786.

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

At the beginning of the year the Group had borrowed $3,019,947 (including capitalised interest and fees) from CF2, an entity controlled by Mr Ian Campbell. This loan was unsecured and bore interest at 12% per annum.

On 2 June 2011 the Group and CF2, agreed to convert $2,925,000 of the balance owing (principal, capitalised interest and fees) to equity by the issue of new ordinary shares at an issue price of $0.09 per share. At 30 June 2011 this debt to equity conversion was unconditional other than shareholder approval. A shareholder meeting on 6 October 2011 approved the conversion of the loan to equity. With further interest charges from 1 July 2011 until the date of conversion the loan balance converted was $3,030,000, resulting in the issue of 33,666,667 ordinary shares to CF2. A small portion of this loan balance was not converted to equity and at 30 June 2012 there remains a balance owing to CF2 of $82,238. Interest paid to CF2 on this loan in this financial year is $92,291.

On 2 April 2012 the Group entered into a convertible loan agreement ("Convertible Loan") with CF2, the conversion terms of which were approved by shareholders on 17 May 2012. The main terms of the Convertible Loan are:

- Loan facility amount: $10 million
- Establishment fee: 5% payable in shares
- Interest rate: 12% on drawn funds and 2% on undrawn funds
- Security: Registered charge over assets and undertakings of AnaeCo Limited
- Term: until 30 June 2013.
- Conversion at lender's election: the outstanding balance, including accrued interest may be converted to equity at any time after the lender issues a conversion notice.
- Conversion at termination: if AnaeCo is not able to repay the outstanding balance at 30 June 2013 it will be converted to equity using the conversion price.
- Conversion price: the greater of $0.045 and 90% of the 10 day volume weighted average price prior to the conversion date.
- Draw-downs: the borrower may issue draw down notices for $1.0 million at any time during the term. After 30 June 2012 the lender may decline a draw-down notice at its discretion. Undrawn interest will cease to apply for declined draw-downs.

By 30 June 2012 the Group had borrowed $1,950,000 under the Convertible Loan. A further $231,000 was drawn on 26 July 2012, and on 30 July 2012 $2,181,000 was converted to equity by the issue of 48,466,667 ordinary shares at an issue price of $0.045 each. The establishment fee of $500,000 was also paid on 30 July 2012 by the issue of 11,111,111 ordinary shares at an issue price of $0.045 each.

At 30 June 2012 the fair value of the Convertible Loan was determined in accordance with the relevant accounting policy (note 2(s)).

Interest on drawn and undrawn funds paid to CF2 on the Convertible Loan up to 30 June 2012 was $38,902.

On 29 August 2012 the Group made a draw-down of $250,000 on the Convertible Loan.

26. Segment Reporting

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

27. Remuneration of Auditors

	Company and consolidated 2012 $	Company and consolidated 2011 $
Amounts paid or due and payable to the auditors of the parent Company for:		
Audit services, including half year audit review services	79,500	75,500
Other assurance and tax services	12,000	32,000
	91,500	107,500

28. Financial Instruments

(a) Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and short term deposits, secured loans, 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, equity 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 2012.

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 2012 the Group had one 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.

28. Financial Instruments, continued

(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 2012 $	Company and consolidated 2011 $
Within one year	3,512,372	1,613,552
One year or later and no later than five years	3,277	52,421
Later than five years	-	-
	3,515,649	1,665,973

The provision for loss on the engineering services contract of $11,500,000 (2011: $5,886,185) and the provision for commissioning DiCOM™ technology of $6,500,000, have not been included in the contractual maturity analysis. These provisions are expected to be utilised over the next 18 months.

(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:

	Company and consolidated 2012 $	Company and consolidated 2011 $
Financial Assets		
Cash	356,457	56,246
Interest bearing liabilities	(2,071,140)	-
Net Financial Assets	(1,714,683)	56,246

(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 2012	**Carrying amount**	**Interest rate risk -1%**		**Interest rate risk +1%**	
		Profit	**Equity**	**Profit**	**Equity**
	$	**$**	**$**	**$**	**$**
Financial Assets					
Cash	356,457	(3,565)	(3,565)	3,565	3,565
Financial Liabilities					
Interest bearing liabilities	2,071,140	20,711	20,711	(20,711)	(20,711)
Total increase/ (decrease)		17,146	17,146	(17,146)	(17,146)

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
Financial Liabilities					
Interest bearing liabilities	-	-	-	-	-
Total increase/ (decrease)		(562)	(562)	562	562

28. Financial Instruments, continued

(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.

Fair value hierarchy
All financial instruments carried at fair value are categorised in three categories, defined as follows:

- Level 1 – Quoted market prices
- Level 2 - Valuation techniques (market observable)
- Level 2 – Valuation techniques (non-market observable)

As at 30 June 2012 (2011: nil), the Group held the following financial instruments measured at fair value:

	30 June 2012	Level 1	Level 2	Level 3
	$	$	$	$
Convertible Loan (ref note 25(b))	2,071,140	-	-	2,071,140

Balance at beginning of the year	-
Convertible Loan drawn	1,950,000
Interest accrued	121,140
Balance at end of year	2,071,140

(g) Equity price risk

The Group is exposed to equity price risk on the CF2 Convertible Loan, which is convertible into shares at the lender's election (see note 25(b) for details. The Group has mitigated this risk be setting the conversion price as the greater of a floor price of $0.045, and 90% of the 10 day volume weighted average price for trading of the Company's shares on ASX. This mechanism operates to minimise dilution if there is periodic weakness in the share price, whilst leaving open the benefit of a rising market price.

In July 2012, $2,181,000 of the Convertible Loan was converted to equity at $0.045, and the date of this financial report $250,000 was outstanding on the Convertible Loan.

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 2 July 2012 the Group issued 44,000,000 ordinary shares to Monadelphous Group Limited at an issue price of $0.048 per share as payment for costs associated with the WMRC DiCOM Expansion Project on which AnaeCo and Monadelphous are providing design and construct services in a joint arrangement.
- On 30 July 2012 CF2 Pty Ltd as trustee for the CF Trust ("CF2") converted loan funds of $2,181,000 to equity at a conversion price of $0.045. This resulted in the issue of 48,466,667 ordinary shares to CF2.
- On 21 August 2012 the Group borrowed $250,000 from Nichol Bay Holdings Pty Ltd, and entity controlled by Mr. G.A. Capelli, under a short term loan arrangement. Further details of the terms and conditions of this loan are provided in note 25 to these financial statements.
- On 27 August 2012 the Group raised $200,000 in a placement by the issue of 5,000,000 shares at $0.04 each.
- On 29 August 2012 the Group made a draw-down of $250,000 on the CF2 Convertible Loan.

- On 25 September 2012 the Group executed a Loan Agreement to borrow up to $2,000,000 from an unrelated party. This loan bears interest at 12% and is secured by a charge over the assets and undertakings of the Group.

30. DIVIDENDS

No dividends have been paid or declared during the year.

31. EARNINGS PER SHARE

	Company and consolidated 12 months June 30 2012	Company and consolidated 12 months June 30 2011
Basic earnings/(loss) per share (cents)	(6.4) cents	(6.1) cents
Weighted average number of shares used in the calculation of basic earnings per share	312,497,951	193,384,119
Diluted earnings/(loss) per share (cents)	(6.4) cents	(6.1) cents
(Loss) used in determination of basic and diluted earnings per share	(20,062,895)	(11,824,250)
Securities on issue, and rights, at balance date which are potentially dilutive to earnings per share		
Quoted class B options	-	13,737,832
Unquoted director and employee options	800,000	11,875,000
Rights to shares in MD & CEO Milestone and Exceptional Outcome bonus package	12,416,667	-
Rights to shares in MD & CEO, and CFO STI bonus	1,863,271	-
Shares issued subsequent to the year end upon conversion of CF2 Convertible Loan, including the establishment fee.	59,577,778	-
Total potentially dilutive securities	74,657,716	25,612,832

These potentially dilutive securities have not been used in calculating diluted earnings per share, because they are anti dilutive.

108,577,778 shares have been issued in the period subsequent to 30 June 2012 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 2012 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 2012.

On behalf of the Board

Patrick Kedemos
Managing Director & CEO
Perth, 28 September 2012

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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 2012, 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.

ERNST & YOUNG

Basis for Disclaimer of Opinion

We draw attention to Note 2(a) in the financial report which indicates that the consolidated entity incurred losses of $20,062,894 during the year ended 30 June 2012 and at that date its current liabilities exceeded its current assets by $17,336,797. As at the date of this report, the consolidated entity has limited cash available and has not secured sufficient additional funding to be able to fulfil future committed operational expenditure. We have been unable to obtain evidence which would provide sufficient appropriate audit evidence as to whether the consolidated entity can achieve the matters disclosed in Note 2(a) and hence remove significant doubt of its ability to continue as a going concern within 12 months of the date of this auditor's report.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 11 of the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

G Lotter
Partner
Perth
28 September 2012