AnaeCo

ANAECO LIMITED ABN 36 087 244 228

ANNUAL REPORT 2013

Corporate Directory

Directors
Mr Shaun Scott (Chairman)
Mr Gianmario Alessio ("Les") Capelli (Non-executive Director)
Dr Ian Campbell (Non-executive Director)

Company Secretaries
Mr David Lymburn
Mr Tim Hinton (appointed 23 July 2013)

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Auditor
Ernst & Young
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Chairman's Letter

2014 IS LOOMING AS A TRANSFORMATIONAL YEAR AS THE COMMERCIALISATION OF ANAECO STRIVES FOR TRACTION

Shaun Scott
Chairman

Dear Shareholder,

The 2013 financial year proved to be another challenging one for AnaeCo as we moved to resolve the remaining legacy issues and prepare the Company for the future. Demonstration of the technology at the Western Metropolitan Regional Council (WMRC) Project was the main focus for the year and throughout, management, staff and other WMRC Project stakeholders, have been grinding through completion of construction and commissioning activities dealing with all the new challenges that arose to meet them. Finally, at the time of writing, we are ready to introduce municipal solid waste (MSW) to the AnaeCo™ AWT Plant at WMRC'S Shenton Park facility. Much remains to be done to complete commissioning and ramp-up of operating activities, and we approach this with a cautious sense of optimism.

One of the major events of the 2013 financial year was the successful rights issue which raised $21.4m and recapitalized the Company. Whilst the scale and pricing of this issue had a significant impact on the capital structure by substantially increasing the number of shares on issue, the most important thing was the success in raising the full amount. This raising ensured the Company is funded to meet its obligation to deliver the WMRC Project, and sustain normal activities.

We thank all shareholders who participated in the rights issue and supported other fundraising during the year. Particular mention should be made of Monadelphous Group Limited which has emerged as our largest shareholder currently owning 15.4% of the Company. I also thank fellow directors Dr Ian Campbell and Les Capelli who between them supported the Company by converting $3.4m of loans to equity.

In July 2013 we fare-welled Patrick Kedemos from the role of Managing Director and CEO. Patrick made a significant contribution over his 2 years in office and set a strong foundation for the Company to commercialise the AnaeCo™ System. We are fortunate to have long term CFO David Lymburn to occupy the position of Acting CEO during the current important period of commissioning the WMRC Project and development of the commercialisation programme. His experience and depth of knowledge across the Company provides the stability and reliability needed for this next phase.

Looking forward the AnaeCo team is focused on successfully commissioning the AnaeCo™ AWT Plant at WMRC'S Shenton Park facility, whilst in parallel preparing to fulfill the requirements of the first wave of new customers. Management has developed a number of highly prospective early adopter relationships which will hopefully convert to committed customers on the back of demonstrable success at Shenton Park. The team is also making early progress on the technology transfer business model. 2014 is looming as a transformational year as the commercialisation of AnaeCo strives for traction.

I thank you all for your continued support and look forward to 2014.

Shaun Scott B Bus (Accountancy), BA (Rec Admin), ACA
Chairman

CEO Review

THERE IS NO DOUBT THAT SUCCESSFUL COMMISSIONING AND OPERATION OF THE ANAECO™ AWT PLANT IN SHENTON PARK WILL BE A MAJOR CATALYST FOR PROGRESSING BUSINESS DEVELOPMENT OPPORTUNITIES.

David Lymburn
Acting CEO

Reflecting on the market opportunity for Advanced Waste Treatment

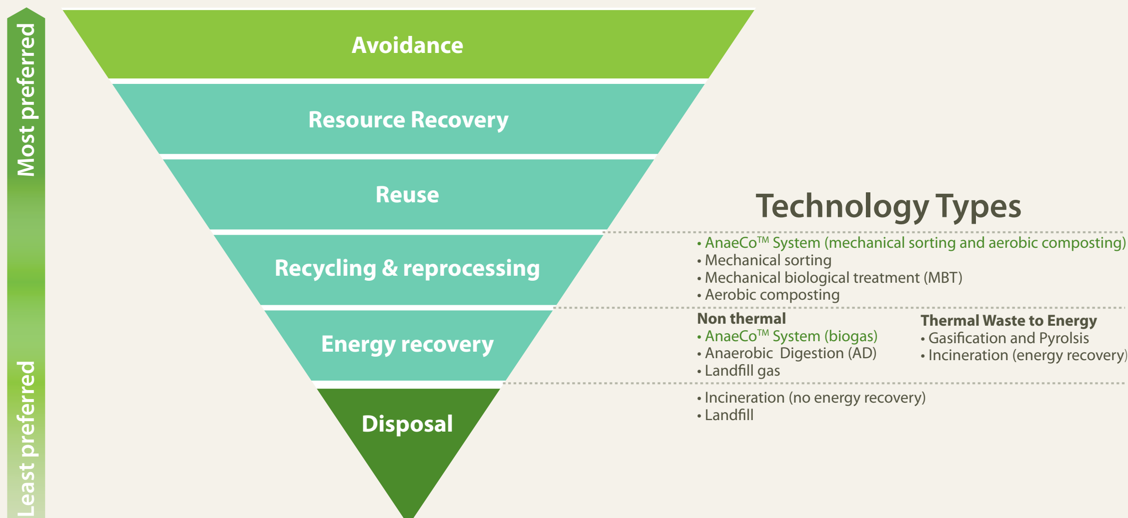
Approaching the latter part of 2013 and looking forward to 2014, the positive market thesis supporting the commercialisation of AnaeCo's technology remains firmly intact. The overarching drivers shaping a large and long term global addressable market for AnaeCo's technology, and Advanced Waste Treatment (AWT) technologies more generally, are well known and continue to be relevant:

- Steadily growing Municipal Solid Waste (MSW) volumes driven by population growth and urbanisation;
- Vast amounts of food and organic material wastage with a significant climate change impact;
- Waste disposal methods still dominated by landfill;
- Increasing government and private sector intervention through policy and legislation observing the underlying principles of the waste hierarchy – diverting waste from landfill and maximising the recovery of resources in the waste stream; and
- A growing acceptance of the need to embrace technological innovation in the waste industry.

In the Australian domestic market, there has been keen interest in AWT technology solutions from government and private sectors, underpinned by existing or rising landfill levies in the majority of states, and increased acceptance and understanding of AWT technologies as an alternative to landfill.

There has been a favourable, increased focus on the diversion of organic waste material from landfill and maximising the value of organic matter by recycling it into agricultural and horticultural production where possible. In addition, there appears to be a transition underway from local government to state government level decision making on waste issues.

Given the emerging market opportunity in Australia, there has been a noticeable rise in the level of competition and presence of competitive technologies such as large scale anaerobic digestion and various thermal waste to energy (WtE) technologies.



CEO Review

In Australia and internationally, in the absence of any entrenched acceptance of any particular AWT technology, WtE solutions are achieving traction in a number of markets. AnaeCo's marketing philosophy is to avoid competing head to head with WtE on the relative merits of particular technology characteristics or sustainability principles. The inherent nature of the waste stream will guide the outcomes required by customers and their technology procurement strategies.

For example, it will always be relatively inefficient and uneconomic to prepare wet putrescible organics for burning. Additionally, the non-putrescible residual fraction from a mechanical and biological treatment (MBT) system like AnaeCo™*[1], may well be most efficiently directed to a WtE facility rather than landfill for disposal. Therefore an efficient MBT system like AnaeCo™ will in many cases be complimentary to a WtE solution in an integrated waste treatment system. Having said this, AnaeCo™ will have fundamental economic advantages over WtE in many situations: for example, we expect to be able to service some customer opportunities which WtE cannot by virtue of AnaeCo's smaller land footprint, lower environmental buffer zones and the ability to be cost effective at lower plant tonnages.

Business development over the past year

Over the past year, AnaeCo's business development activities have scaled up, resulting in strong interest and exchanges of information with local government and private enterprises around Australia, and potential local development partners in Asia, the Middle East and North America. A number of these leads have become semi-formalised by the signing of memoranda of understanding (MoU). These MoUs are framework agreements, mapping out the intentions and respective commercial roles and responsibilities of both parties that will be carried through to a formal arrangement should a project eventuate.

All of the counterparties fit the profile of what we call "early adopters". In some cases we are moving ahead with preliminary scoping studies and dialogue involving AnaeCo providing guidance on the scale, layout and equipment specifications for prospective AnaeCo™ AWT plants, and working towards the creation of sufficient engineering data for the Principal to conduct their own capital cost estimate. The Principal will always be the one to make the investment and project feasibility decision, and as such is the project developer. AnaeCo is not a project developer, but our technology is the core around which the engineering and operational feasibility is determined.

The work being carried out with the early adopters to facilitate project cost estimation is a crucial component in establishing the broader commercial framework for AnaeCo's business model. This means:

- The provision of engineering design development and other feasibility study support work, as a consulting service;
- Positioning AnaeCo as the provider of the core engineering design and a license to use the AnaeCo™ technology;
- Positioning AnaeCo as the supplier of the Process Control System, commissioning services and technology support services.
- Removing AnaeCo from the broader EPCM engineering services role but position AnaeCo to interface with the EPCM service provider and constructor who are contracted to and managed by the Owner/Principal.

Whilst the work we are doing with the potential early adopters is prominent, we remain keenly interested in public sector activity in Australia. A number of emerging local government tenders are set to be released this coming year which AnaeCo is actively monitoring.

Western Metropolitan Regional Council (WMRC) Project

Despite the robust pipeline of interest and existing framework agreements, the operational readiness of the AnaeCo™ AWT Plant at the WMRC Project in Shenton Park remains a precursor to broader progress in taking our technology to market.

We cannot hide from the fact that completion of the WMRC Project has taken longer than planned; even from the standpoint of one year ago when we could see the end of construction in sight and were planning for the commencement of commissioning. Since then the project suffered delays encompassing: final completion of some detailed aspects of design such as the final selection of some process instrumentation and certification of that equipment as safe for use in a hazardous area; revisions to the implementation of the distributed control system and safety system; finalising construction; and a delayed commencement of full commissioning activities meaning construction and commissioning teams were inefficiently attempting to work together on the same site. Significantly during this time nothing has been identified to bring into question the validity of the AnaeCo™ technology which is at the heart of our value proposition.

CEO Review

Construction is now totally complete. Commissioning is well advanced. Initial commissioning tests are mostly complete across the whole plant. All work in the Materials Recovery Facility (MRF) is complete and it is now ready to receive waste. The Bioconversion Facility (BCF) is very nearly ready to receive organic material and commence the ramp-up of biological activity.

There is no doubt that successful commissioning and operation of the AnaeCo™ AWT Plant in Shenton Park will be a major catalyst for progressing existing business development opportunities.

Intellectual Property Management

Over the past year we have invested considerable effort in advancing our portfolio of intellectual property with patent protection. Currently we have two families of granted patents (covering the core DiCOM™ bioconversion process and the pressure aeration of organic material) and we have nine Patent Co-operation Treaty (PCT) Applications progressing towards the final stages of review. These nine PCT Applications cover a range of specific inventions within the whole AnaeCo™ System and by the first quarter of 2014 we will be assessing which should be progressed towards national phase patent registration in which country. This process is aimed at securing a broad base of enforceable intellectual property protection in the global markets where we perceive AnaeCo™ to have the greatest propensity for success. This will likely be dominated by countries with higher economic development and higher population.

Protecting the intellectual property is important to preserve the uniqueness of the technology and it underpins the technology transfer and licensing business model that we are working towards. Generally a regional licensee will have more confidence in the value of a technology licence knowing the IP is protected by a registered patent. That is, the licensee's investment is protected by enforceable rights.

Looking forward

In the near term, in parallel to the ramp-up of operations at Shenton Park, our business development focus will be on progressing the already qualified opportunities we have in hand. We recognise that demonstrable success at Shenton Park is likely to elevate the level of enquiries. Managing this predicted increase in business development activity and matching it to our capacity to respond and deliver AnaeCo™ solutions for customers will be a major challenge for 2014. This is commercialisation. As we have stated previously one of our key strategies to prepare for this and to maximise the potential roll-out of the AnaeCo™ System will be the formation of key alliances with partners who have the expertise and resources that we do not. Such alliances will be aimed at accelerating our programme to become ready for technology transfer. The objective here is to make the AnaeCo™ System most easily accessible and usable by the engineering community at large, servicing the needs of the waste management sector globally, on terms that are commercially rewarding to AnaeCo.

On behalf of the whole AnaeCo team I can say that we are all looking forward to the year ahead.

David Lymburn ACA
Acting CEO

CEO Review

***[1] The AnaeCo™ System**

During the 2013 year the decision was made to rebrand the technology as the AnaeCo™ System (previously called the DiCOM™ System). The reason was to match the Company name with the technology package.

The AnaeCo™ System is comprised of:

1. Materials Recovery Facility (AnaeCo™ MRF)

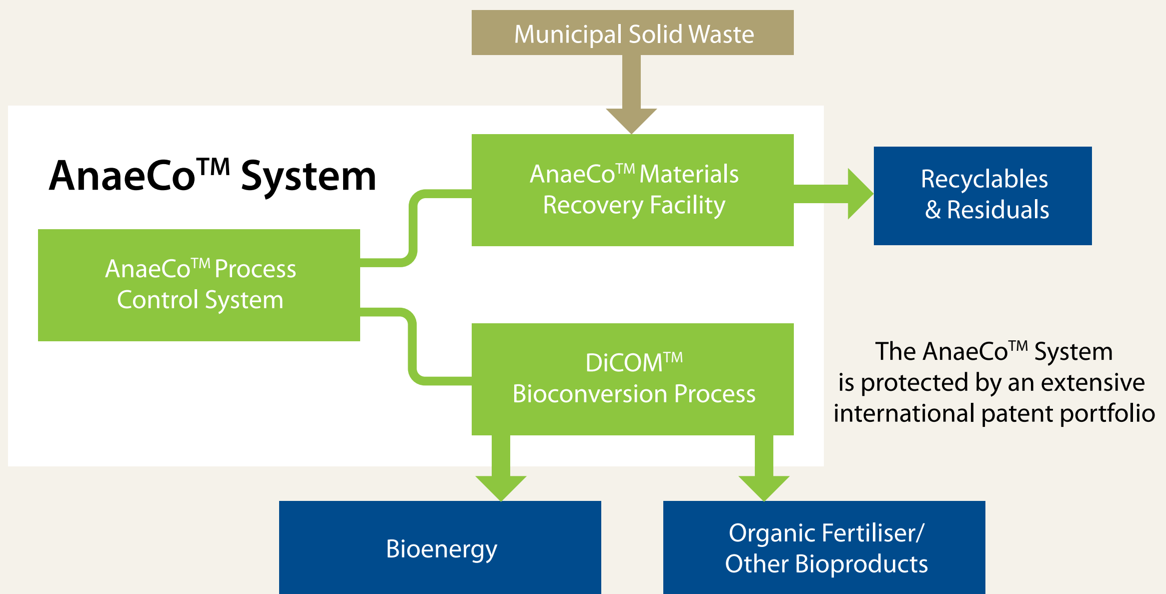
   The AnaeCo™ MRF is a MSW receival and recovery system, incorporating a homogenising trommel and wet separation of organics. Inputs to the MRF are MSW and some water. Outputs are clean organic feedstock for the bioconversion facility (BCF), recyclable materials for markets, residual material to landfill. The MRF sorts and separates the MSW with the core objective of preparing the organic feedstock for the BCF.

2. DiCOM™ Bioconversion Process

   An organic material processing system using the patented DiCOM™ bioconversion process. The BCF comprises three bioconversion vessels inside which the DiCOM™ process treats the organic mass in a hybrid aerobic/anaerobic process, producing methane rich biogas and organic fertiliser.

3. AnaeCo ™ Process Control System (AnaeCo™ PCS)

   Controls the AnaeCo™ MRF and the DiCOM™ Bioconversion Process.



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 2013.

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 Limited – appointed 21 July 2010
- Titan Energy Services Limited – appointed 27 October 2011
- Acer Energy Limited – appointed 11 March 2012; resigned 7 December 2012
- Site Group International Limited – appointed 2 August 2012
- Buccaneer Energy Limited – appointed 2 July 2013; resigned 14 August 2013

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 OSS Limited – appointed 28 November 2005

Patrick Kedemos

MBA INSEAD, MSc (Management)

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 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.

On 22 July 2013, Mr Kedemos resigned as Managing Director and CEO with immediate effect. He is currently completing, pursuant to the terms of his employment contract, a six month notice period, during which he will receive full employment benefits under his contract.

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

COMPANY SECRETARIES

David Lymburn – Acting CEO & Chief Financial Officer

B.Acc, ACA

David Lymburn has been the company secretary of AnaeCo Limited since January 2004. He is a Chartered Accountant with over 25 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. From 22 July 2013 he has been Acting Chief Executive Officer.

Directors' Report

Tim Hinton – Financial Controller

B.Bus, CA

Tim Hinton joined AnaeCo Limited on 29 April 2013 as financial controller and was appointed joint company secretary on 23 July 2013. He is a Chartered Accountant with over 20 years experience in accounting and financial reporting roles.

MEETINGS OF DIRECTORS

The number of meetings of the Board of Directors of the Company held during year ended 30 June 2013 and the number of meetings attended by each director is as follows:

	Meetings held during tenure	Meetings attended
Shaun Scott	13	13
Patrick Kedemos	13	13
Les Capelli	13	13
Ian Campbell	13	13

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	Shares Issued under LTI scheme	Total
Shaun Scott	19,501,824	750,000	20,251,824
Les Capelli	123,467,762	750,000	124,217,762
Ian Campbell	161,985,605	750,000	162,735,605

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 AnaeCo™ System). To better identify the Group's core product in the marketplace with the Company name, it has been re-branded as the AnaeCo™ System (formerly the DiCOM™ System).

OPERATING AND FINANCIAL REVIEW

The net loss after income tax of the Group for the financial year was $3,979,403 (2012: loss $20,062,895).

Review of Operations

Commercialisation of AnaeCo™ System

The principal focus of the Group during this financial year has been the commercialisation of the AnaeCo™ System (previously known as 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.

At the date of this report construction is virtually complete and commissioning activities are well underway and at an advanced stage in several areas, albeit later than had been anticipated. Key milestones ahead for commissioning of this plant are the delivery of anaerobic inoculum (which are being cultivated off site) to the water storage tanks, to be followed by the introduction of MSW to the Material Recovery Facility (MRF). It is expected that these activities will be underway in a few weeks from the date of this report. Subsequent to this the next key milestone will be the commencement of bioconversion of the organic mass inside the Bioconversion Facility (BCF) which is anticipated during the December quarter.

A substantial body of intellectual property has been created over a number of years in developing the AnaeCo™ System. Much of this is already protected by registered patents and PCT Patent Applications. During the 2013 year the Group advanced the PCT filing and review process for nine Applications. This process will conclude during the 2014 year when some of the nine applications may proceed to patent registration.

Directors' Report

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

- Completing commissioning of the WMRC AnaeCo™ AWT plant,
- Securing and commencing new revenue generating projects, and
- Refining and standardising the detailed design and IP package which is the AnaeCo™ System, and commercialising this through technology transfer and licensing arrangements both in Australia and overseas.

Review of Financial Position

The Group's financial position at 30 June 2013 is stronger than it has been for several years with cash on hand of $7,136,349 and net current assets of $4,147,049. Net current assets are stated after including a provision for the expenditure to be incurred in completing the commissioning of the AnaeCo™ technology which is being installed at the WMRC Project. Net assets at 30 June 2013 are $7,093,451.

This improved condition is due to:

- Successfully completing a rights issue during the year which raised $21,426,727 before costs,
- The conversion to equity of $3,408,911 of debt borrowed from related parties.
- Receiving a R&D Tax Incentive refund of $4,907,872 for eligible expenditure incurred in 2012, and
- The expected receipt of a R&D Tax Incentive refund of $5,832,360 for eligible expenditure incurred in 2013.

Payment for the Group's obligations relating to delivery of the WMRC Project has been the principal application of funds, other than corporate administration and overheads. The WMRC Project is a critical step for AnaeCo as the first complete application and flagship project of the AnaeCo™ System. From a commercial perspective, it has been a development project which means AnaeCo's services to this project have been funded by equity rather than revenue. Commissioning of the Project is scheduled to be completed during 2014 and forecast costs to complete have been provided for in the 30 June 2013 Statement of Financial Position.

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 Group's exposure to risks covers areas such as project execution and delivery, intellectual property, technology development, product liability and government policy.

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 2013.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

- The Group issued 44,000,000 ordinary shares to Monadelphous Group Limited on 2 July 2012 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.
- The Group converted on 30 July 2012 loan funds from CF2 Pty Ltd as trustee for the CF Trust ("CF2") a related party of Dr Ian Campbell of $2,681,000 to equity at a conversion price of $0.045. This resulted in the issue of 59,577,778 ordinary shares to CF2.
- The Group borrowed $250,000 on 21 August 2012 from Nichol Bay Holdings Pty Ltd ("Nichol Bay"), an 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 24 to these financial statements.
- The Group raised additional equity funding in August 2012 by placement of 5,000,000 ordinary shares at $0.04 each, raising $200,000.
- The Group raised additional equity funding in April 2013 by a renounceable rights issue of 1,785,560,543 ordinary shares at $0.012 each, raising $21,426,727.
- The Group converted on 8 May 2013 loan funds from CF2 a related party of Dr Ian Campbell of $455,800 to equity at a conversion price of $0.012. This resulted in the issue of 37,983,351 ordinary shares to CF2.
- The Group converted on 8 May 2013 loan funds from Nichol Bay a related party of Mr. G.A. Capelli of $272,111 to equity at a conversion price of $0.012. This resulted in the issue of 22,675,923 ordinary shares to Nichol Bay.
- The Group converted $1,500,000 payable to Monadelphous Group Limited, to equity in May 2013 by the issue of 125,000,000 ordinary shares at $0.012 each.

Directors' Report

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 AnaeCo™ System and its component parts through technology transfer and licensing arrangements.
- Development of new opportunities for AnaeCo™ facilities both in Australia and overseas.

Whilst the WMRC Project has been underway, the Group has been preparing to expand its commercialisation activities. This has involved a targeted campaign aimed at potential early adopters of the AnaeCo™ technology. The profile of an early adopter may be a private business, a waste management company or a local authority, and may be Australian based or international. During 2013 the Group has engaged with many counterparties across the spectrum who have expressed strong interest in the technology and some of these relationships have been formalised in memoranda of understanding. With demonstrable success in the commissioning of the WMRC Project in coming months, we expect a number of these to progress towards commercial business in 2014.

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.

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 2012) and David Lymburn (Acting CEO, CFO and Company Secretary – appointed 10 July 2006). Patrick Kedemos (CEO – appointed 25 July 2012) resigned as MD & CEO 22 July 2013 and ceased to be KMP on that date. Mr Kedemos is currently completing, pursuant to the terms of his employment contract, a six months notice period, during which he will receive full employment benefits under his contract.

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 directors and 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 2013 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. Total remuneration for the year is $237,531 (2012: $266,063).

Directors' Report

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 2013 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 on page 16.

Fixed remuneration

Objective

Fixed remuneration (base salary plus related superannuation contributions) is reviewed annually, each January 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 AnaeCo™ technology on the WMRC DiCOM Expansion Project, securing sufficient capital to sustain operations, and the commercialisation of the AnaeCo™ 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% of annual base salary of $327,790, and for the CFO it is 30% of annual base salary of $274,029 per annum.

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.

Directors' Report

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

For the 2013 year, the MD & CEO earned 50% of his STI entitlement. This comprised 20% for individual performance and 30% for company performance. The CFO earned 62% of his STI entitlement. This comprised 32% 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 ten other companies operating in the waste and recycling sector. These ten 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), Medivac (MDV). After removing the best and worst performer from the group, 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 volume weighted average price ("VWAP") 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 2013 year, the STI entitlements of both the MD & CEO and the CFO were settled by way of share issues and were recognised as share based payments at their fair value. The fair value of these share based payments was determined by using the share price at the grant date, being 1 July 2012. The number of shares to be issued to settle the entitlements is determined by applying the share price at the date of payment i.e. the award date, to the actual bonus value, net of tax. As the grant date and the award date are not the same date, there is potential for the fair value and the actual value to differ.

For the 2013 year the details of STI award to the MD & CEO and CFO are as follows:

	Grant date	Share price at grant date	% of STI earned	Fair value of STI at grant date	VWAP per share at award date	Number of shares to be issued	Number of rights vested
Patrick Kedemos	1 July 2012	$0.034	50%	$175,368	$0.0086	5,097,897	5,097,897
David Lymburn	1 July 2012	$0.034	62%	$111,624	$0.0084	3,244,881	3,244,881

Variable remuneration – Long Term Incentive (LTI)

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 VWAP at which shares were traded on the ASX over the 10 trading days up to and including the trading day before the date of acceptance of the offer. The loan is non-recourse because it is only repayable using proceeds from sale of the LTI shares, unless the employee elects to repay with their own funds.

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

LTI shares are issued subject to vesting conditions, which mean they cannot be traded until the escrow period passes and the trading restriction is lifted. The shares vest with the employee in three equal annual instalments, subject to continuity of employment. Once the trading restriction has been lifted the employee may sell the shares.

Directors' Report

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.

MD & CEO Milestone and Exceptional Outcome Bonus package

In addition to the STI and LTI arrangements described above, during the previous year the Group 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 were;

- 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 AnaeCo™ 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.

The fair value of the Milestone Bonus at the grant date of 23 March 2012 was $500,000. This fair value represents a share based payment and was 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 the grant date of $0.048 and an estimated number of shares to be issued of 10,416,667. The vesting date is 30 June 2013. These rights have lapsed as not all of the above mentioned criteria were satisfied.

Exceptional Outcome Bonus

A $1,000,000 bonus to be paid in AnaeCo shares based on the VWAP 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 was $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.

Discretionary Bonuses

A bonus was considered and determined by the Board on 8 May 2013, at their discretion, to be awarded to Mr Kedemos. The Board determined that as the renounceable rights issue had been successful, one third of the value of the Milestone Bonus would be awarded calculated as one third of $500,000, being $166,667. This represents the fair value of the bonus as a share based payment. The fair value per right at award date was $0.0085 and 10,490,196 shares were issued on 9 July 2013.

Mr Lymburn also received a discretionary bonus determined by the Board on 8 May 2013 relating to the renounceable rights issue. $50,000 was awarded which represents the fair value of the bonus as a share based payment. The fair value per right at award date was $0.0085 and 3,147,059 shares were issued on 9 July 2013.

Directors' Report

Historical financial performance

The Group's financial performance during the 2013 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). The comparatives have been restated to reflect the effect of the renounceable rights issue completed during the current year using a factor of 1.184.

	2013	2012	2011	2010	2009
Net loss after tax	3,979,403	20,062,895	11,824,250	7,097,258	6,506,321
(Loss) per share (cents)	(0.4)	(5.3)	(5.3)	(3.7)	(4.4)
Share price at 30 June (cents)	0.09	4.0	7.5	16.0	29.5

Employment contracts

The Group entered into employment contracts with Patrick Kedemos (MD & CEO) and David Lymburn (CFO). The contract with Patrick Kedemos had 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, $327,790, and $274,029 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.

2013	Short term benefits		Post employment benefits	Share based payments				Long term benefits		
	Salary and fees $	Other (2) $	Superannuation benefits $	Short term incentive (STI) (1) $	Discretionary bonus (5) $	Milestone & Exceptional Bonus (4) $	Long term incentive (LTI) (3) $	Long service leave $	Total $	% performance related
Non-executives										
Shaun Scott	70,000	2,970	–	–	–	–	6,923	–	79,893	–
Les Capelli	70,000	2,970	–	–	–	–	5,330	–	78,300	–
Ian Campbell	64,220	2,970	5,780	–	–	–	6,368	–	79,338	–
Executives										
Patrick Kedemos	360,035	41,076	42,516	175,368	166,667	(86,152)	30,611	–	730,121	40.3%
David Lymburn	267,503	26,720	29,008	111,624	50,000	–	19,208	8,795	512,820	36.1%
Total remuneration	831,758	76,668	77,304	286,992	216,667	(86,152)	68,440	8,795	1,480,472	

Directors' Report

(1) The STI bonuses payable to Mr Kedemos and Mr Lymburn in respect of the 2013 year will be satisfied by the issue of shares. Mr Kedemos will be issued 5,097,897 fully paid ordinary shares. Mr Lymburn will be issued 3,244,881 fully paid ordinary shares.

(2) Includes directors and officers insurance premium of $14,850, allocated across all KMP. Also includes tax on the Short term incentive (STI) payments being, $38,106 for Mr Kedemos and $23,712 for Mr Lymburn.

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

(4) The Milestone Bonus of $100,000 recorded to Mr Kedemos in the previous year was reversed in the current year as it was not achieved. The share based payment value of the Exceptional Outcome Bonus of $13,848 is allocated as an expense to this period.

(5) A discretionary bonus relating to the successful non-renounceable rights issue awarded by the Board to Mr Kedemos on 8 May 2013, was satisfied by the issue of 10,490,196 shares on 9 July 2013. Mr Lymburn also received a discretionary bonus relating to the successful non-renounceable rights issue awarded by the Board on 8 May 2013, satisfied by the issue of 3,147,059 shares on 9 July 2013. The Board determined the value to be paid on grant the date of the award, being 8 May 2013.

2012	Short term benefits		Post employment benefits	Share based payments			Long term benefits		
	Salary and fees $	Other (2) $	Superannuation benefits $	Short term incentive (STI) (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	–
Les Capelli	70,000	2,121	–	–	–	3,553	–	75,675	–
Ian Campbell	64,220	2,121	5,780	–	–	4,245	–	76,366	–
Michael Dureau	29,165	2,121	–	–	–	–	–	31,286	–
Executives									
Patrick Kedemos	249,420	54,381	22,448	112,367	103,462	13,845	–	555,923	48.2%
David Lymburn	200,306	28,892	49,638	54,806	–	8,430	12,691	329,763	24.3%
Richard Rudas	211,663	2,698	19,298	–	–	–	7,322	240,981	–
Total remuneration	900,774	94,455	97,164	167,173	103,462	34,688	20,013	1,417,729	

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

(2) Includes directors and officers insurance premium of $14,850, allocated across all KMP. Also includes tax on the Short term incentive (STI) payments being, $52,260 for Mr Kedemos and $25,476 for Mr Lymburn.

(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.

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

Ordinary shares comprising long term incentive (LTI) remuneration

During the year the Company issued 7,875,000 LTI shares to the MD & CEO and 5,250,000 to the CFO. All of these LTI shares were issued at $0.012 per share. The number of LTI shares allotted was determined by the Board so that the percentage shareholding represented by the existing LTI shares allotted was not diluted by the completion of the renounceable rights issue in March 2013. 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.

Directors' Report

At the reporting date there are 19,125,000 LTI shares held by KMP which are subject to service conditions. 7,875,000 of these LTI shares have vested during the year and none have 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.

						Vesting conditions	
	Number of LTI rights	Date of grant	Share price at date of grant	Valuation per right	Exercise price of each right	Number of shares	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
Patrick Kedemos	7,875,000	22 Mar 2013	$0.015	$0.015	$0.012	2,625,000	25 July 2012
						2,625,000	25 July 2013
						2,625,000	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
David Lymburn	5,250,000	22 Mar 2013	$0.015	$0.015	$0.012	1,750,000	18 Dec 2012
						1,750,000	18 Dec 2013
						1,750,000	18 Dec 2014
Total	19,125,000						

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.

END OF REMUNERATION REPORT

SHARE OPTIONS

At the date of this report no issued options over ordinary shares existed.

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

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

Directors' Report

Details of all movements in share options are provided in note 18 to the financial statements.

No options were issued or 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 of $14,850 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 action, except where the liability arises out of:

- any conduct or contravention in respect of which a liability is the subject of a prohibition in section 199B(1) of the Corporations Act 2001; or
- the committing of any deliberately dishonest or deliberately fraudulent act.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

Once completed, operation of the AnaeCo™ 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. During the year and up to the date of this report the Group has complied with all of its environmental obligations.

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; $66,000.

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

Shaun Scott
Chairman
Perth, 25 September 2013

Auditor's Independence Declaration

Ernst & Young
11 Mounts Bay Road,
Perth, WA 6000,
Australia

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Fax: +61 8 429 2432
Website: http://www.ey.com

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 2013, 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
25 September 2013

Corporate Governance Statement

This Corporate Governance Statement explains the Group's conformance with the 'Corporate Governance Principles and Recommendations' issued by the Australian Securities Exchange (ASX).

Principle 1 – Lay solid foundations for management and oversight

Companies should establish and disclose the respective roles and responsibilities of board and management.

The role and responsibilities of the Board are encompassed in the Board Charter (the Board Charter is published on the Group's website).

The roles and responsibilities of management, including the executive directors, are established from time to time by the Board as it carries out its function.

The philosophy and process for evaluating the performance of senior executives is provided in the Remuneration Report in each year's Annual Report.

Principle 2 – Structure the board to add value

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

The Board determines its size and composition, subject to the Corporations Act and the Company's Constitution. Accordingly there shall be not less than 3 and not more than twelve directors.

The Board shall include a balance of Non-executive and Executive directors. Non-executive directors will mostly be independent directors, but a Non-executive director could be non-independent. The Board in its Charter has adopted a fundamental principle that there should be a majority of independent directors. Presently there are three directors, with one being independent and two non-independent. Mr Shaun Scott is the independent director whereas Mr Les Capelli and Mr Ian Campbell are not independent directors. Although Mr Capelli and Mr Campbell are Non-executive directors they are deemed not independent under ASX guidelines by virtue of their shareholding interest in the Company. Accordingly the Board structure does not presently comply with ASX Corporate Governance Principles and Recommendations, or the Board Charter. The Board has stated it is intention to expand the Board with the addition of one or more independent directors.

The current Directors of the Group are listed in the most recent Annual Report as well as on the Group's website, with a brief description of their qualifications, experience and special responsibilities.

The roles of Chairperson and CEO are not exercised by the same individual.

The Chairperson is selected by the full Board.

Principle 3 – Promote ethical and responsible decision making

Companies should actively promote ethical and responsible decision making.

The Group has a Code of Conduct which is applicable to all directors, management and staff.

The Group also has a written policy governing directors, management and employees dealing in the Company's securities.

Copies of the Code of Conduct and the Policy for Trading in Company Securities are published on the Group's website.

Diversity

The Group recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. AnaeCo believes its diverse workforce is the key to its continued growth, improved productivity and performance.

AnaeCo actively values and embraces the diversity of our employees and are committed to creating an

inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequity are not tolerated.

At 30 June 2013, 23% of our workforce was female. There are currently no senior executives or Board members who are female.

Whilst the Group supports and seeks to comply with the recommendations contained in the ASX Corporate Governance Principles and Recommendations and has established a formal diversity policy, it has not yet established measurable objectives for achieving diversity, but has resolved to establish and adopt these in the near future.

Principle 4 – Safeguard integrity in financial reporting

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

The CEO and CFO are required to provide written undertakings to the Board providing assurances that the Group's financial reports present a true and fair view and are in accordance with relevant accounting standards.

Corporate Governance Statement

They are also required to provide written assurances that the financial reports are based on a sound system of internal controls, and to explain any significant weaknesses in internal controls.

The Board has resolved to establish an Audit Committee. However the present composition of directors does not enable the Group to comply with ASX guidelines. Accordingly the entire Board performs the function of the Audit Committee.

The Audit Committee charter is published on the Group's website.

The Group has a policy on the provision of external audit and other professional accounting services. The external auditor is precluded from providing any services which in the opinion of the Audit Committee may threaten its independence or may cause a conflict with its assurance and compliance role.

Principle 5 – Make timely and balanced disclosure

Companies should promote timely and balanced disclosure of all material matters concerning the Group.

In accordance with ASX Listing Rules and the Corporations Act, a continuous disclosure regime operates throughout the Group.

The Group has a written policy regarding Market Disclosure and Communications. All management and staff are made aware of this policy and a copy of the policy is posted on the Group's website.

Principle 6 – Respect the rights of shareholders

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

The Group has a written policy on Market Disclosure and Communications which includes a section on shareholder communications.

The policy explains what information is posted to the Group's website as well as information which will be mailed to all shareholders.

The Group's website includes a facility whereby any interested party, whether a shareholder or not, may register to receive by e-mail regular updates of selected ASX announcements or periodic shareholder/investor updates.

At General Meetings the Chairman encourages questions and discussions on all matters of business by shareholders. Shareholders who are unable to attend the meetings personally are encouraged to submit written questions on any matters of business.

The external auditor attends the Annual General Meeting and is available to respond to questions about the conduct of the audit and the preparation and content of the Independent Audit Report.

Principle 7 – Recognise and manage risk

Companies should establish a sound system of risk oversight and management and internal control.

The full Board retains prime responsibility for policy regarding oversight and management of risk. The Board may delegate responsibility for aspects of risk management to the CEO and management.

In conjunction with their annual and half yearly sign off on the financial statements, the CEO and CFO will be required to report to the Board as to the effectiveness of the Group's management of its material business risks.

Principle 8 – Remunerate fairly and responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

The Board has resolved to establish a Remuneration Committee. However the present Board composition does not enable the Group to comply with ASX guidelines. Accordingly the entire Board performs the function of the Remuneration Committee.

The Remuneration Committee charter is published on the Group's website.

The Group has adopted a remuneration structure for executive directors and senior management which distinguishes between fixed remuneration and remuneration which is at risk. The remuneration which is at risk comprises short term and longer term incentive arrangements. Details of this as well as details of the employment contracts of senior executives are provided in the Remuneration Report contained in each year's Annual Report.

The Group acknowledges ASX guidelines that remuneration arrangements for non-executive directors should be clearly distinguished from arrangements for executive directors. The Group agrees with this recommendation with one exception. The Group considers non-executive directors should have capacity to share in equity based incentive arrangements for the following reasons;

- The nature of the Group's business and its stage of development mean the whole Board plays a critical role in developing strategies and decision making which will have a direct impact on the success of the Group. In other words, the role of the Board in such

Corporate Governance Statement

an early stage emerging Group is often closer aligned with management at key decision points. The Board is therefore accountable for the success or failure in creating and delivering strategies as well as the more traditional stewardship and governance role of Boards in larger and longer established companies.

- Equity based compensation incentives are a necessity in this day and age for smaller developing companies, at a higher risk stage in their life cycle, in order to attract non-executive directors with appropriate skills, experience and calibre.
- The Group has confidence it can establish equity based compensation incentives for non-executives which are balanced and not excessive, and accordingly in the best interests of shareholders.

The Corporations Act provides that all share or option issues to directors must be approved by shareholders. In submitting any proposal for equity based compensation of directors (both executive and non-executive) the Group will provide shareholders with all information required by the Corporations Act and ASX Listing Rules as well as a full explanation of its reasons why it considers the proposed remuneration arrangements to be appropriate.

Statement of Comprehensive Income

For the year ended 30 June 2013

	Notes	12 months June 30 2013 $	12 months June 30 2012 $
Revenue	3(a)	158,505	133,053
Other income	3(b)	7,942,069	1,105,856
Project delivery costs	4(a)	(6,720,707)	(15,958,663)
Technology development expense	4(b)	(568,898)	(656,975)
Depreciation and amortisation expense	4(c)	(768,142)	(611,992)
Finance costs	4(d)	(372,011)	(922,832)
Employee benefits expense	4(e)	(2,278,945)	(1,532,853)
Other expenses	4(f)	(1,371,274)	(1,618,489)
Loss before income tax expense		(3,979,403)	(20,062,895)
Income tax (expense)/benefit	5	–	–
Net loss after tax attributable to members of AnaeCo Limited and total comprehensive expense for the period		(3,979,403)	(20,062,895)
Earnings per share for loss attributable to the ordinary equity holders of the Company	30		
Basic loss per share		(0.4) cents	(5.3) cents
Diluted loss per share		(0.4) cents	(5.3) cents

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2013

	Notes	June 30 2013 $	June 30 2012 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	7,136,349	356,457
Trade and other receivables	7	6,790,143	2,125,014
Other	8	–	6,330
TOTAL CURRENT ASSETS		13,926,492	2,487,801
Non Current Assets			
Property, plant and equipment	9	57,693	71,497
Intangible assets	10	5,072,442	4,411,704
TOTAL NON CURRENT ASSETS		5,130,135	4,483,201
TOTAL ASSETS		19,056,627	6,971,002
LIABILITIES			
Current liabilities			
Trade and other payables	13	1,587,506	1,401,909
Provision for loss on engineering services contract	14	5,023,050	16,083,955
Interest bearing loans and borrowings	15	3,277	2,104,639
Non interest bearing liabilities	16	3,000,000	–
Provisions	17	165,610	234,095
TOTAL CURRENT LIABILITIES		9,779,443	19,824,598
Non Current Liabilities			
Provision for loss on engineering services contract	14	–	1,916,045
Interest bearing loans and borrowings	15	2,000,000	2,792
Provisions	17	183,733	180,920
TOTAL NON CURRENT LIABILITIES		2,183,733	2,099,757
TOTAL LIABILITIES		11,963,176	21,924,355
NET ASSETS/(LIABILITIES)		7,093,451	(14,953,353)
EQUITY/(SHAREHOLDERS' DEFICIT)			
Contributed equity	18	67,481,050	42,020,225
Reserves	19	1,120,474	555,092
Accumulated losses	20	(61,508,073)	(57,528,670)
TOTAL EQUITY/(SHAREHOLDERS' DEFICIT)		7,093,451	(14,953,353)

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2013

	Notes	12 months June 30 2013 $	12 months June 30 2012 $
Cash flows from operating activities			
Receipts from customers		–	122,324
Interest received	3(a)	108,505	10,730
R&D tax incentive received	3(b)	4,213,728	–
Payments to suppliers and employees		(16,692,311)	(5,602,985)
Interest paid		(129,510)	(47,196)
Net cash flows used in operating activities	21	(12,499,588)	(5,517,127)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		–	14,539
Purchases of property, plant and equipment	9	(25,660)	(43,749)
Purchases of patents and trademarks classified as intangible assets	10	(159,061)	–
Purchases of computer software classified as intangible assets	10	(10,378)	(2,045)
R&D tax incentive received	3(b)	694,144	–
Expenditure on technology development capitalised as intangible assets	10	(2,218,140)	(1,542,543)
Net cash flows used in investing activities		(1,719,095)	(1,573,798)
Net cash flows from financing activities			
Proceeds from the issue of shares	18	21,437,727	6,701,900
Costs of fundraising		(1,137,136)	(712,270)
Proceeds from borrowings		4,231,000	2,845,000
Repayment of borrowings		(3,533,016)	(1,443,494)
Net cash flows from financing activities		20,998,575	7,391,136
Net increase in cash and cash equivalents		6,779,892	300,211
Cash and cash equivalents at beginning of period		356,457	56,246
Cash and cash equivalents at end of period	6	7,136,349	356,457

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2013

For the year ended 30 June 2013	Issued capital $	Accumulated losses $	Employee benefits reserve $	Total equity $
At the beginning of the year	42,020,225	(57,528,670)	555,092	(14,953,353)
Loss for the period	–	(3,979,403)	–	(3,979,403)
Total comprehensive (expense) for the period	–	(3,979,403)	–	(3,979,403)
Transactions with owners in their capacity as owners				
Issue of share capital	21,612,315	–	–	21,612,315
Costs of capital raising	(1,113,906)	–	–	(1,113,906)
Share based payment	53,505	–	565,382	618,887
Debt for equity conversion of loans	4,908,911	–	–	4,908,911
At the end of the year	67,481,050	(61,508,073)	1,120,474	7,093,451

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)

Notes to the Financial Statements

For the year ended 30 June 2013

1 Corporate Information

The consolidated financial report of AnaeCo Limited ("the Company") and its controlled entities ("the Group") for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the directors on 25 September 2013.

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 AnaeCo™ System). 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.

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 was 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 assets of $7,093,451 (previous period, net liabilities of $14,953,353) has net current assets of $4,147,049 (previous period net current liabilities of $17,336,797) and incurred an operating loss after income tax of $3,979,403 (previous period, loss of $20,062,895) for the year ended 30 June 2013.

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 AnaeCo™ System and specifically with respect to the application of the AnaeCo™ 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.
- AnaeCo Limited will be submitting a claim for the new Research & Development Tax Incentive in respect of the 2013 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 AnaeCo™ technology will satisfy the tests of eligibility. The amount of eligible expenditure in the 2013 year is estimated to be $12,960,800 and if approved, this would lead to a cash refund of $5,832,360 which has been recognised in the current year financial statements, refer Note 3(b).

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

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

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

Should the Group not achieve the matters set out above

Notes to the Financial Statements

For the year ended 30 June 2013

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 2012, the Group has adopted all Accounting Standards and Interpretations, mandatory for annual periods beginning on or before 1 July 2012.

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 completed its assessment of the standards noted below but for new and amended Australian Accounting Standards and Interpretations effective at 1 July 2013, it is expected that there will be no significant impact on the Group.

Ref	Title	Summary	Application date of standard	Application date for Group
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 2012-7.	1 January 2013	1 July 2013

Notes to the Financial Statements

For the year ended 30 June 2013

Ref	Title	Summary	Application date of standard	Application date for Group
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 2012-7 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
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 2012-8.	1 January 2013	1 July 2013

Notes to the Financial Statements

For the year ended 30 June 2013

Ref	Title	Summary	Application date of standard	Application date for Group
AASB 119	Employee Benefits	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 2012-10.	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, 2012-2, 2012-6, 2012-11 and 2013-1.	1 July 2013	1 July 2013

Notes to the Financial Statements

For the year ended 30 June 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 2013-2 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 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2012 Cycle	AASB 2013-5 makes amendments resulting from the 2009-2012 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 2013-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities;	AASB 2013-3 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 2014
AASB 2011-4	Amendments to Australian Accounting Standards to *Remove Individual Key Management Personnel Disclosure Requirements* [AASB 124]	This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.	1 July 2013	1 July 2013

Notes to the Financial Statements

For the year ended 30 June 2013

<table>
<tr><th>Ref</th><th>Title</th><th>Summary</th><th>Application date of standard</th><th>Application date for Group</th></tr>
<tr><td>AASB 9</td><td>Financial Instruments</td><td>AASB 9 includes requirements for the classification and measurement of financial assets. 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.</td><td>1 January 2015</td><td>1 July 2015</td></tr>
<tr><td>Interpretation 21</td><td>Levies</td><td>This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.</td><td>1 January 2014</td><td>1 July 2014</td></tr>
</table>

Notes to the Financial Statements

For the year ended 30 June 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.

Notes to the Financial Statements

For the year ended 30 June 2013

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.

Notes to the Financial Statements

For the year ended 30 June 2013

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.

Notes to the Financial Statements

For the year ended 30 June 2013

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

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For the year ended 30 June 2013

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 profit or loss 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.

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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. These options expired during the year on 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.
5. Short term incentive scheme – Each key management personnel and other senior members of staff, were awarded annual short term incentive bonuses.

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 Black Scholes valuation 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').

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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.

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For the year ended 30 June 2013

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 Black Scholes 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.

(ab) 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.

Notes to the Financial Statements

For the year ended 30 June 2013

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.

(ac) Comparatives

Comparative amounts have been reclassified for consistency with current year disclosures.

		12 months June 30 2013 $	12 months June 30 2012 $
3(a)	**Revenue**		
	Engineering services	50,000	8,032
	Interest income	108,505	10,730
	Other revenue	–	114,291
		158,505	133,053
3(b)	**Other income**		
	Government grant – R&D Tax Incentive 2012	3,107,872	1,105,856
	Government grant – R&D Tax Incentive 2013	4,834,197	–
		7,942,069	1,105,856

The Group is expecting to receive a R&D Tax incentive of $5,832,360 for eligible expenditure incurred in 2013, of which $4,834,197 is recognised as Other Income in the current year and $998,163 is recognised as an offset to technology development expenditure capitalised as Intangibles.

The Group received a R&D Tax Incentive refund of $4,907,872 for eligible expenditure incurred in 2012, of which $1,800,000 was recognised as receivable in the 30 June 2012 financial statements and $3,107,872 is recorded as Other Income in the current year. In the 2012 year $1,105,856 was recognised as Other Income and $694,144 was recognised as an offset to technology development expenditure capitalised as Intangibles.

		12 months June 30 2013 $	12 months June 30 2012 $
4(a)	**Project delivery costs**		
	Expenditure on long term engineering contract not previously accounted for	3,000,001	9,450,743
	Movement in provision for costs to complete	3,679,906	6,500,000
	Cost of labour for engineering services billings	40,800	7,920
		6,720,707	15,958,663
4(b)	**Technology development expense**		
	Expenditure on technology development	2,787,038	2,199,518
	Less capitalised as an intangible asset	(2,218,140)	(1,542,543)
		568,898	656,975
4(c)	**Depreciation and amortisation expense**		
	Depreciation of property, plant & equipment	39,464	73,343
	Amortisation of patents, licences and intellectual property	728,678	538,649
		768,142	611,992

Notes to the Financial Statements

For the year ended 30 June 2013

		12 months June 30 2013 $	12 months June 30 2012 $
4(d)	**Finance costs**		
	Interest paid to other parties arising on finance leases and hire purchase contracts	15,256	16,016
	Interest expense on loans from related parties	106,771	164,978
	Interest expense on loans from others	107,973	31,180
	Loan establishment fees paid to related parties	12,500	500,000
	Other finance costs	129,511	210,658
		372,011	922,832
4(e)	**Employee benefits expense**		
	Wages and salaries	3,680,809	3,567,475
	Defined contribution superannuation plan expense	344,734	312,797
	Less labour costs allocated to projects and technology development	(2,569,705)	(2,691,965)
	Non-executive directors remuneration	204,220	245,165
	Share based payments expense	618,887	99,380
		2,278,945	1,532,852
4(f)	**Other expenses**		
	Premises and related expenses	360,008	371,142
	Consultants and professional advisors	385,865	577,250
	Travel	156,342	137,295
	Other overheads	469,059	532,802
		1,371,274	1,618,489
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	(3,979,403)	(20,062,895)
	At the statutory income tax rate of 30% (2012:30%)	1,193,821	6,018,868
	Non assessable income	–	331,757
	Expenditure not allowable for income tax purposes	(188,715)	(769,191)
	R&D expenditure for 2013	(4,085,326)	–
	R&D tax incentive received not assessable	2,382,621	–
	Temporary differences not recognised	1,123,806	(5,581,434)
	Prior year adjustment	(426,207)	–
		–	–

Notes to the Financial Statements

For the year ended 30 June 2013

	12 months June 30 2013 $	12 months June 30 2012 $
5. Income Tax, continued		
Deferred income tax		
Deferred tax assets not recognised		
Unrecognised tax losses	14,477,077	9,867,470
Temporary differences	388,046	3,873,847
	14,865,123	13,741,317
Temporary differences comprises:		
Provision for completion of long term contract	1,506,915	4,662,763
Unamortised balance of business related expense deductions	429,487	392,446
Employee benefits provisions	104,803	124,504
Other	315,719	209,524
Intangibles – development expenditure	(1,968,878)	(1,515,390)
	388,046	3,873,847

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.

	June 30 2013 $	June 30 2012 $
6. Cash and Cash Equivalents		
Cash at bank and in hand	7,136,349	356,457
7. Trade and Other Receivables		
Current		
Trade receivables	57,362	5,870
Loans receivable – DiCOM AWT Investment Trust	–	231,064
R&D tax incentive receivable	5,832,360	1,800,000
Other receivables	900,421	88,080
	6,790,143	2,125,014

Trade receivables at 30 June 2013 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.

Notes to the Financial Statements

For the year ended 30 June 2013

	June 30 2013 $	June 30 2012 $
8. Other Assets (Current)		
Prepayments	–	6,330
9. Property, Plant and Equipment		
Property, plant and equipment at cost	620,817	595,157
Less accumulated depreciation	(590,263)	(531,566)
	30,554	63,591
Property, plant and equipment purchased under hire purchase or finance lease	90,371	90,371
Less accumulated depreciation	(63,232)	(82,465)
	27,139	7,906
Total Property, plant and equipment at cost	710,988	685,528
Less accumulated depreciation	(653,495)	(614,031)
Net carrying amount of property, plant and equipment	57,693	71,497
Movements in carrying values during the year:		
Balance at 1 July	71,497	111,097
Additions	25,660	43,748
Disposals	–	(10,005)
Depreciation expense	(39,464)	(73,343)
Net carrying amount at 30 June	57,693	71,497

Refer to note 15 for details of encumbrances over property, plant and equipment.

Notes to the Financial Statements

For the year ended 30 June 2013

	June 30 2013 $	June 30 2012 $
10. Intangibles		
Reconciliation of carrying amounts:		
Development expenditure (i)		
At beginning of year, net of accumulated amortisation	4,357,156	3,986,810
Capitalised during the year	2,218,140	1,542,543
R&D Tax Incentive offset	(998,163)	(694,144)
At end of year	5,577,133	4,835,209
Amortisation expense	(706,511)	(478,053)
At end of year, net of accumulated amortisation	4,870,622	4,357,156
Patents and trademarks		
At beginning of period, net of accumulated amortisation	44,505	50,121
Capitalised during the year	159,061	–
Amortisation expense	(10,027)	(5,616)
At end of year, net of accumulated amortisation	193,539	44,505
Computer software		
At beginning of year, net of accumulated amortisation	10,043	62,978
Capitalised during the year	10,378	2,045
Amortisation expense	(12,140)	(54,980)
At end of year, net of accumulated amortisation	8,281	10,043
Development expenditure	8,174,197	5,956,057
R&D Tax Incentive offset	(1,692,307)	(694,144)
Less accumulated depreciation	(1,611,268)	(904,757)
	4,870,622	4,357,156
Patents and trademarks	260,204	101,143
Less accumulated depreciation	(66,665)	(56,638)
	193,539	44,505
Computer software	187,884	177,506
Less accumulated depreciation	(179,603)	(167,463)
	8,281	10,043
Total intangibles at cost	8,622,285	6,234,706
Less accumulated depreciation	(1,857,536)	(1,128,858)
Net carrying amount Intangibles	5,072,442	4,411,704

Notes to the Financial Statements

For the year ended 30 June 2013

10. Intangibles, continued

(i) This intangible asset represents that portion of expenditure incurred in development of the Group's AnaeCo™ alternative waste 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 AnaeCo™ 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 AnaeCo™ technology in the period. This includes progressing 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 AnaeCo™ AWT plant facility and is scheduled for completion and commencement of operations during 2014.

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 AnaeCo™ 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.

	June 30 2013 $	June 30 2012 $
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	100

12. Parent Entity Information

	June 30 2013 $	June 30 2012 $
Information relating to AnaeCo Limited:		
Current assets	13,924,130	2,486,831
Total assets	19,054,544	6,970,310
Current liabilities	9,779,443	19,824,598
Total liabilities	11,963,176	21,924,355
Net assets/(liabilities)	7,091,368	(14,954,045)
Contributed equity	67,481,050	42,020,225
Accumulated losses	(61,510,156)	(57,529,362)
Employee equity benefits reserve	1,120,474	555,092
Total shareholders' equity	7,091,368	(14,954,045)
Net loss of the parent entity	(3,980,794)	(20,075,388)
Total comprehensive (loss) of the parent entity	(3,980,794)	(20,075,388)

Details of commitments and contingent liabilities of the parent entity are provided in note 22.

Notes to the Financial Statements

For the year ended 30 June 2013

	June 30 2013 $	June 30 2012 $
13. Trade and Other Payables		
Trade payables	819,019	381,201
Other payables and accrued expenses	768,487	1,020,708
	1,587,506	1,401,909

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.

	June 30 2013 $	June 30 2012 $
14. Provision for loss on Engineering Services Contract		
Current	5,023,050	16,083,955
Non-current	–	1,916,045
	5,023,050	18,000,000
Movement in provision for loss on Engineering Services Contract		
At beginning of period	18,000,000	5,886,185
Project expenditure applied against the provision	(16,656,856)	(3,836,928)
Provision arising in the period	3,679,906	15,950,743
At the end of the period	5,023,050	18,000,000

Completion of the WMRC DiCOM Expansion Project is estimated to occur in the 2014 calendar year.

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 2013, (2012: nil).

	June 30 2013 $	June 30 2012 $
Additional disclosures for contracts in progress at balance date:		
Current contracts		
Aggregate costs incurred to date	22,862,056	6,205,200
Billings	–	–
Losses recognised	(27,885,106)	(24,205,200)
Provision for costs to be incurred	(5,023,050)	(18,000,000)

Notes to the Financial Statements

For the year ended 30 June 2013

	June 30 2013 $	June 30 2012 $
15. Interest Bearing Loans and Borrowings		
Current		
Loans from related parties (refer note 24(b))	–	2,071,140
Hire purchase liabilities (i)	3,277	33,499
	3,277	2,104,639
Non Current		
Hire purchase liabilities (i)	–	2,792
Other loan unsecured (ii)	2,000,000	–
	2,000,000	2,792

Terms and conditions

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

(ii) This loan is to be repaid by 1 January 2015 and the interest rate is 12% to be applied to the loan from 1 January 2014.

	June 30 2013 $	June 30 2012 $
16. Non-interest bearing liabilities		
Current		
Other loan secured (i)	3,000,000	–

Terms and conditions

(i) This loan is to be repaid by 1 January 2014.

	June 30 2013 $	June 30 2012 $
17. Provisions (Current and Non Current)		
Current		
Employee benefits – annual leave	165,610	234,098
Non Current		
Employee benefits – long service leave	183,733	180,920
Number of employees at reporting date	21	26
18. Contributed Equity		
Issued Capital		
2,486,369,732 (2012 ; 398,869,105) fully paid ordinary shares	71,078,557	44,282,826
Costs of capital raising	(2,964,007)	(1,850,101)
31,500,000 (2012: 8,250,000) reserved shares[(1)]	(633,500)	(412,500)
	67,481,050	42,020,225

Notes to the Financial Statements

For the year ended 30 June 2013

18. Contributed Equity, continued

Movements in issued capital	Date	2013 Shares	2013 $	2012 Shares	2012 $
Ordinary fully paid shares					
Balance at 30 June 2011				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	Jan – June '12			8,250,000	412,500
Placement	April '12			1,080,398	46,457
Shares to be issued post balance date (2)				–	2,112,000
Balance at 30 June 2012		398,869,105	44,282,826	398,869,105	44,282,826
Shares to be issued post 30 June 2012 (2)	Jul '12	44,000,000	–		
Debt to equity conversion	Jul '12	59,577,778	2,681,000		
Placement	Aug '12	5,000,000	200,000		
Employee share bonus (2012 STI)	Dec '12	1,863,271	89,436		
Employee share incentive (LTI)	Jan '13	750,000	37,500		
Renounceable rights issue	Apr '13	1,769,810,543	21,237,727		
Employee share incentive (LTI)	Apr '13	15,750,000	189,000		
Debt to equity conversion	May '13	22,675,923	272,111		
Debt to equity conversion	May '13	37,983,351	455,800		
Settlement of liability(3)	May '13	125,000,000	1,500,000		
Shares for services rendered(4)	Jul'12 – Jun '13	4,053,216	60,000		
Reserved shares cancelled	May '13	(2,250,000)	(112,500)		
Employee share bonus (STI)	Jun '13	2,286,545	78,657		
Employee share incentive (LTI)	Jun '13	1,000,000	11,000		
Shares to be issued post 30 June 2013 (5)		–	96,000		
		2,486,369,732	71,078,557		

(1) Under the Group's Long Term Incentive plan, 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 as at the time of allotment, if and when the shares are ultimately sold for a value greater than the allotment price.

(2) 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.

(3) Liability for costs relating to WMRC DiCOM Expansion Project owing to JV construction partner Monadelphous Group Limited settled by the issue of shares.

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

(5) Employee share incentive (LTI) shares to be issued after year end.

Notes to the Financial Statements

For the year ended 30 June 2013

18. Contributed Equity, continued

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.

Share Based Incentive Options

As at 30 June 2013 there were no share options on issue as they expired without exercise;

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	2013 No of Options	2012 No of Options
Balance at beginning of the financial period	800,000	11,875,000
Expired (Series 1)	(800,000)	(10,375,000)
Lapsed (Series 2)	–	(700,000)
Closing balance at the end of financial period	–	800,000

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

- 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 Black Scholes 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 Black Scholes 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

Notes to the Financial Statements

For the year ended 30 June 2013

18. Contributed Equity, continued

The valuation of options granted in 2010, and the years in which the expense has been recognised in the accounts is as follows:

Year in which vesting and expense occurred	Valuation of options granted in 2010
2010	3,384
2011	40,745
2012	15,361
	59,490

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. The shares vest with the employee in three equal annual instalments, subject to continuity of employment. Once the trading restriction has been lifted the employee may sell the shares.

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

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

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

During the year the Company issued 25,500,000 LTI rights to KMP and management. 23,750,000 of these LTI shares were issued at $0.0012 per share, 750,000 at $0.05 per share and 1,000,000 at $0.011 per share. The Company cancelled 2,250,000 LTI shares as the holders ceased employment. The number of LTI shares allotted was determined by the Board, and in doing so consideration was taken of the potential incentive amount relative to the employees' total remuneration package. The grant of these LTI rights was independently valued using the Black Scholes option valuation model which takes into account factors such as the share price at the date of grant, volatility of the share price, risk free rate and time period until vesting. Accounting standards require the value of the rights granted to be brought to account over the expected term of vesting the benefits to the holder.

Notes to the Financial Statements

For the year ended 30 June 2013

18. Contributed Equity, continued

Movement in LTI Rights:	2013 LTI Rights	2012 LTI Rights
Balance at beginning of the year	8,250,000	–
Issued	25,500,000	8,250,000
Cancelled	(2,250,000)	–
Closing balance at the end of the year	31,500,000	8,250,000

At the reporting date there are 31,500,000 LTI rights held by KMP and management which are subject to service conditions. 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
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
David Lymburn	5,250,000	22 Mar 2013	$0.015	$0.015	$0.012	1,750,000	18 Dec 2012
						1,750,000	18 Dec 2013
						1,750,000	18 Dec 2014
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
Patrick Kedemos	7,875,000	22 Mar 2013	$0.015	$0.015	$0.012	2,625,000	25 July 2012
						2,625,000	25 July 2013
						2,625,000	25 July 2014
Others	750,000	3 May 2012	$0.05	$0.015	$0.05	250,000	31 Mar 2013
						250,000	31 Mar 2014
						250,000	31 Mar 2015
Others	2,625,000	22 Mar 2013	$0.015	$0.015	$0.012	875,000	31 Mar 2013
						875,000	31 Mar 2014
						875,000	31 Mar 2015
Others	1,000,000	Mar 2013	$0.01	$0.015	$0.011	333,334	31 Mar 2014
						333,333	31 Mar 2015
						333,333	31 Mar 2016
Others	8,000,000	Mar 2013	$0.012	$0.012	$0.012	2,666,668	31 Mar 2014
						2,666,666	31 Mar 2015
						2,666,666	31 Mar 2016
Total	31,500,000						

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.

Notes to the Financial Statements

For the year ended 30 June 2013

18. 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:

	Date of grant	Share price at grant date	Volatility factor	Risk free rate	Life of right (Years)
Shaun Scott	15 Nov 2011	$0.05	102%	3.2%	3
Ian Campbell	21 Nov 2011	$0.05	101%	3.2%	3
Les Capelli	30 Nov 2011	$0.05	96%	3.2%	3
Patrick Kedemos	15 Nov 2011	$0.05	102%	3.2%	3
Patrick Kedemos	22 Mar 2013	$0.015	95%	3.56%	70
David Lymburn	18 Nov 2011	$0.05	100%	3.2%	3
David Lymburn	22 Mar 2013	$0.015	95%	3.56%	70
Others	3 May 2012	$0.05	84%	2.8%	3
Others	22 Mar 2013	$0.015	95%	3.56%	70
Others	Mar 2013	$0.01	95%	3.26%	70
Others	Mar 2013	$0.012	95%	3.26%	70

The valuation of LTI rights granted in 2013, 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 2013	Valuation of LTI rights granted in 2012
2012	–	42,736
2013	79,367	68,613
2014	180,313	68,613
2015	144,703	31,161
2016	102,785	–
Total valuation of LTI rights granted in year	507,168	211,123

MD & CEO Milestone and Exceptional Outcome Bonus package

During the previous year the Group 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 were;

- 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.

At the date of this report it had lapsed as the criteria had not all been satisfied.

Notes to the Financial Statements

For the year ended 30 June 2013

18. Contributed Equity, continued

The fair value of the Milestone Bonus at the grant date of 23 March 2012 was $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. The amount expensed to date has been reversed in the current 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.

The grant of rights was independently valued using a generally accepted option valuation model (the Black Scholes 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 Black Scholes 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 options granted in year	45,000

Discretionary Bonuses

A bonus was considered and determined by the Board on 8 May 2013, at their discretion, to be awarded to Mr Kedemos. The Board determined that as the renounceable rights issue had been successful, one third of the value of the Milestone Bonus would be awarded calculated as one third of $500,000, being $166,667. This represents the fair value of the bonus as a share based payment. The fair value per right at award date was $0.0085 and 10,490,196 shares were issued on 9 July 2013.

Mr Lymburn also received a discretionary bonus determined by the Board on 8 May 2013 relating to the renounceable rights issue. $50,000 was awarded which represents the fair value of the bonus as a share based payment. The fair value per right at award date was $0.0085 and 3,147,059 shares were issued on 9 July 2013.

Notes to the Financial Statements

For the year ended 30 June 2013

18. Contributed Equity, continued

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 2013 year, the MD & CEO earned 50% of his STI entitlement. This comprised 20% for individual performance and 30% for company performance. The CFO earned 62% of his STI entitlement. This comprised 32% for individual performance and 30% for company. 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 ten other companies operating in the waste and recycling sector. These ten 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), Medivac (MDV). After removing the best and worst performer from the group, 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 2013 year, the STI entitlements of both the MD & CEO and the CFO were settled by way of share issues and were recognised as share based payments at their fair value. The fair value of these share based payments was determined by using the share price at the grant date, being 1 July 2012. The number of shares to be issued to settle the entitlements is determined by applying the share price at the date of payment i.e. the award date, to the actual bonus value net of tax. As the grant date and the award date are not the same date, there is potential for the fair value and the actual value to differ.

For the 2013 year the details of STI award to the MD & CEO and CFO are as follows:

	Grant date	Share price at grant date	% of STI earned	Fair value of STI at grant date	VWAP per share at award date	Number of shares to be issued	Number of rights vested
Patrick Kedemos	1 July 2012	$0.034	50%	$175,368	$0.0086	5,097,897	5,097,897
David Lymburn	1 July 2012	$0.034	62%	$111,624	$0.0084	3,244,881	3,244,881

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.

Notes to the Financial Statements

For the year ended 30 June 2013

18. Contributed Equity, continued

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.	June 30 2013 $	June 30 2012 $
Total borrowings	5,003,277	2,107,431
Less cash and cash equivalents (to the extent required to cover borrowings)	(5,003,277)	(356,457)
Net debt	–	1,750,974
Total equity/(shareholders deficit)	7,093,451	(14,953,353)
Total capital	7,093,451	(14,953,353)
Gearing ratio	N/A	(12)%

The net asset position at 30 June 2013 is mainly attributable to completing the renounceable rights issue, the receipt of R&D Tax Incentives and the reduction in the provision for loss on engineering services contract. The Group currently does not have a target range for the gearing ratio.

19. Reserves

Employee equity benefits reserve	1,120,474	555,092
Balance at beginning of period	555,092	489,589
Share based payments	565,382	65,503
Balance at end of the period	1,120,474	555,092

The employee equity benefits reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

20. Accumulated Losses

Opening balance	(57,528,670)	(37,465,775)
Current year loss attributable to members of the parent entity	(3,979,403)	(20,062,895)
Closing balance	(61,508,073)	(57,528,670)

Notes to the Financial Statements

For the year ended 30 June 2013

	June 30 2013 $	June 30 2012 $
21. Reconciliation of net loss after tax to the net cash flows from operating activities		
Loss after tax	(3,979,403)	(20,062,895)
Non-cash items:		
Depreciation and amortisation	768,142	611,992
Share based payment expenses	618,887	99,380
Employee bonus not paid in cash	25,152	–
Interest on related party loans not paid in cash	106,771	164,978
Consultancy fees not paid in cash	60,000	–
Fees on related party loans not paid in cash	–	500,000
Net movement in provision for costs to complete on engineering services contract	(13,218,992)	5,613,814
Provision for commissioning AnaeCo™ technology	242,043	6,500,000
Project costs funded by JV partner	5,000,000	–
Project delivery costs settled by share issue	1,500,000	2,112,000
Capital raising expenses classified as cash flows of financing activities	23,229	237,803
Other Income – R&D Tax Incentive refund receivable	(4,834,197)	(1,105,856)
R&D Tax Incentive refund classified as investing activity	(694,144)	–
Gain on disposal of motor vehicle	–	(4,534)
Accrued interest income	(61,920)	–
Changes in net assets and liabilities:		
(Increase)/decrease in trade and other receivables	1,229,150	(4,169)
(Increase)/decrease in prepayments	6,330	7,468
Increase/(decrease) in trade and other payables	775,035	(65,820)
Movement in provision for employee benefits	(65,671)	(121,288)
Net cash flow (used in) operating activities	(12,499,588)	(5,517,127)

22. 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:

Within one year	152,9764	150,762
After one year but not more than five years	260,107	380,155
	413,083	530,918

Notes to the Financial Statements

For the year ended 30 June 2013

22. Commitments and Contingencies, continued

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 $5,534. The contracts expire within 1 year. 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.

Future payments under hire purchase agreements at balance date are:

	June 30 2013 $	June 30 2012 $
Within one year	3,762	39,322
After one year but not more than five years	–	3,277
After more than five years	–	–
Total repayments	3,762	42,599
Less future finance charges	(485)	(6,308)
Present value of minimum payments	3,277	36,291

Capital commitments

The Group and the parent entity have 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.

23. Key Management Personnel Disclosures

(a) Compensation for Key Management Personnel

	June 30 2013 $	June 30 2012 $
Short term employee benefits	908,426	995,229
Long term employee benefits (LSL)	8,795	20,013
Post-employment benefits	77,304	97,164
Share based payments	485,947	305,323
Total compensation	1,480,472	1,417,729

Notes to the Financial Statements

For the year ended 30 June 2013

23. Key Management Personnel Disclosures, continued

(b) Options and rights held by Key Management Personnel

i) Quoted options Class B

No further options were granted during the year.

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)	–			

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

No further options were granted during the year.

30 June 2012	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	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)	–	–	–	–

iii) Details of the MD & CEO's interest in shares through the Milestone and Exceptional Outcome Bonus, are disclosed in note 18 and in the Remuneration Report. 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.

Notes to the Financial Statements

For the year ended 30 June 2013

23. Key Management Personnel Disclosures, continued

iv) Details of the MD & CEO's and CFO's interest in rights through the Employee Share Bonus STI.

30 June 2013	Rights at beginning of year	Shares issued	Rights granted as remuneration	Rights at end of year
Patrick Kedemos	1,252,229	(1,252,229)	5,097,897	5,097,897
David Lymburn	611,042	(611,042)	3,244,881	3,244,881
Total	1,863,271	(1,863,271)	8,342,778	8,342,778

30 June 2012	Rights at beginning of year	Shares issued	Rights granted as remuneration	Rights at end of year
Patrick Kedemos	–	–	1,252,229	1,252,229
David Lymburn	–	–	611,042	611,042
Total	–	–	1,863,271	1,863,271

(c) Shareholdings of Key Management Personnel

i) Ordinary shares

30 June 2013	Balance at beginning of period	Granted as LTI[4]	Granted as STI	Net change other	Balance at end of period
	1 July 2012				30 June 2013
Non-executives					
Les Capelli	39,041,837	–	–	[1]85,175,925	124,217,762
Ian Campbell	70,949,476	–	–	[2]91,786,129	162,735,605
Shaun Scott	14,002,934	–	–	[3]6,248,890	20,251,824
Executives					
Patrick Kedemos	2,250,000	7,875,000	1,252,229	[5]6,791,667	18,168,896
David Lymburn	3,400,603	5,250,000	611,042	[6]1,655,022	10,916,667
Total	129,644,850	13,125,000	1,863,271	191,658,743	336,290,754

(1) Includes, renounceable rights issue 62,500,002 and debt to equity conversion 22,675,923.

(2) Includes, debt to equity conversion of 59,577,778 and 37,983,351.

(3) Includes renounceable rights issue 6,250,000.

(4) Shares issued under the Long Term Incentive (LTI) arrangements, which have been accounted for as "in substance options". See note 18 for further details.

(5) Renounceable rights issue 6,791,667.

(6) Renounceable rights issue 4,166,667 and disposal 2,511,645.

Notes to the Financial Statements

For the year ended 30 June 2013

23. Key Management Personnel Disclosures, continued

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 18 for further details.

(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 18.

24. 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 23.

(b) Loans from directors

(i) Nichol Bay Holdings Pty Ltd ("Nichol Bay")

During the year the Group had borrowed $250,000 from Nichol Bay, a company controlled by Mr Les Capelli. This loan was unsecured and bore interest at 12% per annum.

The Group and Nichol Bay agreed to convert the entire balance owing (principal and capitalised interest) to equity by the issue of new ordinary shares at an issue price of $0.012 per share. A shareholder meeting on 8 May 2013 approved the conversion of the loan to equity. At the date of conversion the loan balance converted was $272,111 (including capitalised interest of $22,111), resulting in the issue of 22,675,923 ordinary shares to Nichol Bay. Interest paid to Nichol Bay on the loan in this financial year was $22,111. A borrowing fee of $12,500 was paid to Nichol Bay in cash.

Notes to the Financial Statements

For the year ended 30 June 2013

24. Related Party Transactions, continued

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

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

- 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.

At the beginning of the year the Group had borrowed $1,950,000 (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. 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. 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.

On 29 August 2012 the Group made a draw-down of $250,000 on the Convertible Loan. A shareholder meeting on 8 May 2013 approved the conversion of this loan and an existing loan of $82,238 to equity. At the date of conversion the loan balances converted were $325,822 and $91,076 including capitalised interest, resulting in the issue of 37,983,351 ordinary shares to CF2. Interest paid to CF2 on these loans in this financial year was $84,660.

25. 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.

Notes to the Financial Statements

For the year ended 30 June 2013

26. Remuneration of Auditors

	2013 $	2012 $
Amounts paid or due and payable to the auditors of the parent Company for:		
Audit services, including half year audit review services	83,000	79,500
Other assurance and tax services	66,000	12,000
	149,000	91,500

27. 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 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 2013.

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 2013 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.

(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:

	2013 $	2012 $
6 – 12 months	4,590,783	3,512,372
1 – 5 years	2,240,000	3,277
	6,830,783	3,515,649

The provision for loss on engineering services contract of $5,023,050 (2012: $16,083,955), has not been included in the contractual maturity analysis. This provision is expected to be utilised over the next 12 months.

Notes to the Financial Statements

For the year ended 30 June 2013

27. Financial Instruments, continued

(d) Interest rate risk exposure

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	2013 $	%	2012 $	%
Financial Assets				
Cash and cash equivalents	7,136,349	4.0	356,457	3.6
Financial Liabilities				
Interest bearing liabilities	(2,003,277)	12.0	(2,107,431)	12.0
Net Financial Assets/(Liabilities)	5,133,072		(1,750,974)	

(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 2013 and 2012.

1% interest rate sensitivity increments are considered reasonable in current global financial conditions.

	Carrying amount	Interest rate risk -1%		Interest rate risk +1%	
30 June 2013	$	Profit $	Equity $	Profit $	Equity $
Financial Assets					
Cash	1,136,349	(11,363)	(11,363)	11,363	11,363
Financial Liabilities					
Interest bearing liabilities	–	–	–	–	–
Total increase/ (decrease)		(11,363)	(11,363)	11,363	11,363
30 June 2012					
Financial Assets					
Cash	356,457	(3,565)	(3,565)	3,565	3,565
Financial Liabilities					
Interest bearing liabilities	–	–	–	–	–
Total increase/ (decrease)		(3,565)	(3,565)	3,565	3,565

(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 3 – Valuation techniques (non-market observable)

Notes to the Financial Statements

For the year ended 30 June 2013

27. Financial Instruments, continued

At the year end the there were no financial instruments measured at fair value, those held at the end of the previous year were:

	30 June 2012 $	Level 1 $	Level 2 $	Level 3 $
Convertible Loan (ref note 24(b))	2,071,140	–	–	2,071,140

	June 30 2013 $	June 30 2012 $
Movements in financial instruments measured at fair value:		
Balance at beginning of the year	2,071,140	–
Convertible Loan drawn	481,000	1,950,000
Interest accrued	84,660	121,140
Converted to equity	(2,636,800)	–
Balance at end of year	–	2,071,140

(g) Equity price risk

The Group was exposed to equity price risk on the CF2 Convertible Loan, which was convertible into shares at the lender's election (see note 24(b)) for details. The Group had mitigated this risk by 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. 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.

28. 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.

29. Dividends

No dividends have been paid or declared during the year.

Notes to the Financial Statements

For the year ended 30 June 2013

30. Earnings Per Share

	June 30 2013	June 30 2012
Basic (loss) per share	(0.4) cents	(5.3) cents
Weighted average number of shares used in the calculation of basic earnings per share	1,058,087,522	376,170,113
Diluted (loss) per share	(0.4) cents	(5.3) cents
(Loss) used in determination of basic and diluted earnings per share	(3,979,403)	(20,062,895)
Basic and diluted EPS for all periods prior to the renounceable rights issue completed during the current year have been adjusted by a factor of 1.184 to account for the bonus element.		
Securities on issue, and rights, at balance date which are potentially dilutive to earnings per share:		
Unquoted director and employee options	–	800,000
Rights to shares in MD & CEO Milestone and Exceptional Outcome bonus package	2,000,000	12,416,667
Rights to shares in Employee share bonus (STI)	11,642,897	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	13,642,897	74,657,716

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

33,821,819 shares have been issued in the period subsequent to 30 June 2013 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 2013 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 2013.

On behalf of the Board

Shaun Scott
Chairman
Perth, 25 September 2013

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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 2013, 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.

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Opinion

In our opinion:

a. the financial report of AnaeCo Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 5 to 11 of the directors' report for the year ended 30 June 2013. 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.

Opinion

In our opinion, the Remuneration Report of AnaeCo Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2(a) in the financial report which indicates that the consolidated entity incurred losses of $3,979,403 during the year ended 30 June 2013. As a result there is significant uncertainty whether it will continue as a going concern, and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Ernst & Young

G Lotter
Partner
Perth
25 September 2013

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Additional Information

required by ASX Listing Rule 4.10

The following is information required to be disclosed by ASX Listing Rule 4.10 which is not already disclosed elsewhere in the annual report. This information is current as of 25 September 2013.

The number of holders and voting rights of each class of security

Class of security	Number of holders	Voting rights
Ordinary shares	1,850	Voting – one vote per share

Distribution schedule of the number of holders in each class of security

Range of shares	Number of shareholders
1 – 1,000	174
1,001 – 5,000	160
5,001 – 10,000	153
10,001 – 100,000	509
100,001 and over	854
Total	**1,850**

The number of holders holding less than a marketable parcel of ordinary shares at 25 September 2013 was 845.

The names of the twenty largest holders of each class of quoted security

Top 20 ordinary shareholders

Rank	Name	Shares	% interest
1	MONADELPHOUS GROUP LIMITED	390,142,118	15.48
2	CF2 PTY LTD	153,384,450	6.09
3	UBS NOMINEES PTY LIMITED	104,910,000	4.16
4	CITICORP NOMINEES PTY LIMITED	84,380,671	3.35
5	FLOURISH HOLDINGS PTY LTD	75,172,405	2.98
6	JP MORGAN NOMINEES AUSTRALIA	74,594,946	2.96
7	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	58,283,584	2.31
8	PICTON COVE PTY LTD	57,113,165	2.27
9	NICHOL BAY HOLDINGS PTY LTD	48,295,357	1.92
10	MR DAVID EDWARD TRIMBOLI	35,000,000	1.39
11	BRINCLIFF PTY LTD	29,141,700	1.16
12	WENTWORTH HOLDINGS PTY LTD	29,141,700	1.16
13	AVATAR INDUSTRIES PTY LTD	23,313,400	0.93
14	MR JOHN HERRMANN + MRS PAMELA MARY HERRMANN	20,265,399	0.80
15	MR GIOVANNI SPAGNOLO	20,000,000	0.79
16	R & P AUSTIN SUPERANNUATION PTY LTD	18,184,500	0.72
17	BONTEMPO NOMINEES PTY LTD	18,000,000	0.71
18	MR PATRICK KEDEMOS	17,756,989	0.70
19	CHEMCO SUPERANNUATION FUND PTY LTD	17,484,927	0.69
20	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	15,314,744	0.61
	Total	**1,289,880,055**	**51.18**

Additional Information

The number of unquoted securities on issue and the number of holders is as follows

Class of security	Number on issue	Number of holders
Unquoted incentive shares	19,125,000	8

There is no current on market buy-back.

Details of substantial shareholders

Name of substantial shareholder	Shares in which there is a relevant interest
Monadelphous Group Limited	390,142,118
Ian Lindsay Campbell	162,735,605
Gianmario Alessio Capelli	124,217,762

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