
ANAECO LIMITED

ACN 087 244 228

NOTICE OF GENERAL MEETING

TIME: 10:00am (WST)

DATE: 17 October 2016

PLACE: 3 Turner Avenue, Bentley, Western Australia 6102

This Notice of Meeting, the Explanatory Statement and accompanying Independent Expert's Report (which considers the proposed transactions the subject of Resolutions 1, 2 and 3 to be FAIR AND REASONABLE to non-associated Shareholders) should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 8 9361 4777.

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IMPORTANT INFORMATION

Time and place of Meeting

Notice is given that the Meeting will be held at 10:00am (WST) on 17 October 2016 at:

3 Turner Avenue, Bentley, Western Australia 6102

Your vote is important

The business of the Meeting affects your shareholding and your vote is important.

Voting eligibility

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 8:00pm Sydney time on 15 October 2016.

Voting in person

To vote in person, attend the Meeting at the time, date and place set out above.

Voting by proxy

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has a right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

Shareholders and their proxies should be aware that changes to the Corporations Act made in 2011 mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes are set out below.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on, the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair, the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting; or
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

CHAIRMAN'S LETTER

Dear Shareholder,

This Notice of General Meeting, including the Explanatory Statement (**ES**) and Independent Expert's Report (**IER**) prepared by Stanton International Securities Pty Ltd, (together the **Notice**), presents three resolutions for your consideration and approval.

Resolution 1 is for approval for the purpose of ASX Listing Rule 10.1 to permit AnaeCo Limited (**AnaeCo** or the **Company**) to grant security over all of its assets and undertakings in favour of Monadelphous Group Limited (**Monadelphous**).

As explained in the ES, the Company has borrowed money from Monadelphous under secured loan agreements since September 2012. In entering these loan agreements (which have been negotiated on commercial arm's length terms) the Company has already granted security over all of its assets and undertakings to Monadelphous. The Company has previously obtained a waiver from ASX from the requirement to obtain shareholder approval for the purpose of ASX Listing Rule 10.1, which was granted on the condition that the secured amount not exceed \$13.6 million and the security contain certain other limitations.

However, the Company and Monadelphous have agreed that the Company will now seek shareholder approval for the grant of the security such that the Company need not rely on the waiver, and the security can secure the repayment of the full value of the amount to be borrowed from Monadelphous. This is a condition precedent to AnaeCo being able to complete the transactions described in the ES, and will enable Monadelphous to exercise its rights under the loan and security agreements without limitation if the transaction does not complete and the requirement to do so was to arise.

For the purpose of ASX Listing Rule 10.1 and 10.10.2, the Independent Expert has provided an opinion that the terms of the proposed grant of security to Monadelphous the subject of Resolution 1 are fair and reasonable to the non-associated Shareholders (ie Shareholders other than Monadelphous).

As explained, the Company has borrowed significant amounts from Monadelphous since September 2012 to support its obligations to complete the Stage 2 DiCOM™ System Project in Shenton Park (also referred to in Company announcements as the Western Metropolitan Regional Council or WMRC Project). The total loan outstanding at 4 August 2016 is \$16,544,823. The terms of repayment include an option for Monadelphous to convert the loan to equity. Given the Company's state of affairs and current sentiment in investment markets it is unrealistic to expect the Company to be able to raise \$16,544,823 plus working capital in the current market. Accordingly a debt for equity conversion is the most realistic alternative and the most attractive for current shareholders.

For some time the Company has been pursuing an objective of forming a strategic relationship with an organisation that would bring financial, commercial and technical resources to support the commercialisation of the AnaeCo™ technology. The search for such an organisation has included international markets as the commercialisation opportunities for waste technology are global. Through these efforts we identified Xiaoqing Environmental Protection Technology Co. Ltd (**XEPT**) as matching the profile of strategic partner that we had been seeking. XEPT, led by Chairman Han Xiaoqing is a privately owned hi-tech enterprise established in 1989. Its focus has been on the design, construction and operation of water and waste water treatment plants, solid waste treatment and renewable energy projects in China. XEPT has been recognised as one of the earliest companies engaged in environmental engineering and protection projects in China. It has developed a number of proprietary technology solutions which it applies in its business in China.

Combining the objective of forming a strategic commercial relationship with a suitable organisation, with the requirement to repay the debt owed to Monadelphous, has resulted in a transaction whereby XEPT will acquire the major portion of the loan owed by the Company

to Monadelphous, and both XEPT and Monadelphous will convert their loans to equity in AnaeCo, at the same conversion price.

Therefore, the three parties agreed that XEPT will purchase \$11.5 million of the outstanding loan balance from Monadelphous and convert it to equity for a 55.0% share of the ordinary shares on issue in AnaeCo (on a fully diluted basis post transaction close), and Monadelphous will convert a further portion of the loan into equity at the same price per share such that its shareholding becomes 30.0% of the ordinary shares on issue in AnaeCo (on a fully diluted basis post transaction close). The maximum amount of loan Monadelphous may convert to achieve the 30.0% shareholding interest is \$5,729,091, and this means the total balance of loan which will be converted to equity in AnaeCo is \$17,229,091.

It was further agreed between the parties that:

- AnaeCo will have approximately \$3.7 million in free cash at closing of the transactions described in the ES (**Completion**); and
- AnaeCo will have no debt at Completion, and therefore any outstanding loan balance greater than \$17,229,091 will be forgiven by Monadelphous; and
- In consideration for agreeing to the loan forgiveness Monadelphous will receive a payment from the Company (estimated to be approximately \$4.4 million) based upon the estimated receipt of R&D Tax Incentive refund for the 2015/16 year.

Further details of the loan purchase by XEPT and conversion to equity by XEPT and Monadelphous are summarised in the ES and discussed further in the IER.

As the proposed share issues to XEPT and MND will take each party's shareholding above 20%, shareholder approval is required pursuant to Section 611 Item 7 of the Corporations Act.

Therefore,

- **Resolution 2** seeks shareholder approval for the proposed issue to Monadelphous of 4,151,515,217 shares at 0.138 cents each to convert the loan amount of \$5,729,091 to equity; and
- **Resolution 3** seeks shareholder approval for the proposed issue to XEPT of 8,333,333,333 shares at 0.138 cents each to convert the loan amount of \$11,500,000 to equity.

Completion of the Sale Agreement is conditional upon all of Resolutions 1 to 3 being passed at the Meeting.

If these resolutions are approved, and once the debt conversion shares are issued, the relative shareholding interests in the Company will be:

XEPT	55.0%
Monadelphous	30.0%
Current shareholders other than XEPT or Monadelphous	15.0%

The Directors acknowledge the heavy dilutive effect of the debt to equity conversion but having carefully considered the state of the Company's affairs, and in the absence of any reasonable alternative, the Directors believe this to be a good outcome for the Company.

For the purpose of Section 611 Item 7 of the Corporations Act, the Independent Expert has analysed the proposed issues of Shares to Monadelphous and XEPT the subject of Resolutions 2 and 3. The Independent Expert has concluded that the proposed issues are on terms which are **fair and reasonable** to the non-associated shareholders (i.e. shareholders other than Monadelphous and XEPT).

Directors' Recommendations

The directors of AnaeCo Limited unanimously recommend that shareholders approve each of the three resolutions for the following reasons:

Resolution 1

- AnaeCo has benefited from borrowing funds from Monadelphous since September 2012 to complete its obligations on the Stage 2 DiCOM™ System Project. These loans were arranged on commercial arm's length terms, which included the granting of security over the assets of the Company. It is fair and reasonable that Monadelphous be able to enforce its rights as secured lender should the requirement to do so arise. There is already an ASX waiver in place which would permit Monadelphous to enforce its security up to a maximum value of \$13.6 million (subject to certain other conditions).
- The passing of Resolution 1 is a condition precedent to Completion of the sale of \$11.5 million of the loan from Monadelphous to XEPT, conversion by Monadelphous and XEPT of their loans into shares and forgiveness of the balance of the debt. If this sale and conversion of the loan does not proceed, Monadelphous will have the ability to demand full repayment of the entire outstanding loan balance upon 28 days' notice to the Company. It is highly unlikely that the Company would be able to raise the cash required to repay the loan and in the absence of any other solution would almost certainly enter into administration or liquidation.

Resolutions 2 and 3

- The result of the transaction comprising the purchase by XEPT of \$11.5 million loan from Monadelphous then converting it to equity, Monadelphous converting \$5,729,091 of debt to equity and the remaining balance of outstanding loan being forgiven, is that AnaeCo will be debt free.
- The combined benefit of clearing all debt and obtaining \$3.7 million in free cash, restructuring the balance sheet and bringing XEPT on board as 55% shareholder is a pivotal and positive shift in the Company's state of affairs. Coming soon after completion and handover of the WMRC Project, this corporate transaction positions the Company for commercialisation of the AnaeCo technology and growth into the markets of China and South East Asia.
- It would be very difficult for AnaeCo to achieve a similar outcome by raising cash in the equity markets, repaying the Monadelphous loan and then forging a strategic alliance with a company of substance.

Summary and conclusion

In summing up, completion of the WMRC Project and thereby demonstrating the AnaeCo™ technology has been the Company's sole objective for many years. As we all know this has taken much longer and cost much more than was foreseen when the Company embarked upon this journey. The result is a technology which is ready for commercialisation and a balance sheet in need of repair. The debt for equity conversion combined with the introduction of XEPT as majority shareholder provides in a single step the transformation required at this juncture to take the Company forward.

Shaun Scott

Chairman

BUSINESS OF THE MEETING

AGENDA

1. RESOLUTION 1 – APPROVAL FOR GRANT OF SECURITY TO MONADELPHOUS GROUP LIMITED

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 10.1 and for all other purposes, approval is given for the Company to grant the Security over its assets in favour of Monadelphous Group Limited on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Monadelphous Group Limited and any of its associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Expert’s Report: Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required under ASX Listing Rule 10.1. The Independent Expert’s Report comments on the fairness and reasonableness of the transaction the subject of this resolution to the non-associated Shareholders in the Company.

2. RESOLUTION 2 – APPROVAL OF ISSUE OF SHARES TO MONADELPHOUS GROUP LIMITED UPON LOAN CONVERSION

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to the passing of Resolutions 1 and 3, for the purposes of Section 611 (Item 7) of the Corporations Act and for all other purposes, approval is given for the issue by the Company of up to 4,151,515,217 Shares to Monadelphous Group Limited on the terms and conditions set out in the Explanatory Statement, which in addition to the 390,142,118 Shares already held will result in Monadelphous Group Limited’s voting power increasing from 14.6% to a potential maximum of 30.0% in the capital of the Company.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Monadelphous Group Limited and Xiaoqing Environmental Protection Technology Co. Ltd and any of their associates.

Expert’s Report: Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required under Section 611 Item 7 of the Corporations Act. The Independent Expert’s Report comments on the fairness and reasonableness of the transactions the subject of this resolution to the non-associated Shareholders in the Company.

3. RESOLUTION 3 – APPROVAL OF ISSUE OF SHARES TO XIAOQING ENVIRONMENTAL PROTECTION TECHNOLOGY CO. LTD UPON LOAN CONVERSION

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to the passing of Resolutions 1 and 2, for the purposes of Section 611 (Item 7) of the Corporations Act and for all other purposes, approval is given for the issue by the Company of up to 8,333,333,333 Shares to Xiaoqing Environmental Protection Technology Co. Ltd on the terms and conditions set out in the Explanatory Statement, which will result in Xiaoqing Environmental Protection Technology Co. Ltd’s voting power increasing from 0% to 55.0% in the capital of the Company.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Xiaoqing Environmental Protection Technology Co. Ltd and Monadelphous Group Limited and any of their associates.

Expert’s Report: Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required under Section 611 Item 7 of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transactions the subject of this resolution to the non-associated Shareholders in the Company.

Dated: 15 September 2016

By order of the Board

**Tim Hinton
Company Secretary**

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions.

1. BACKGROUND AND OVERVIEW OF TRANSACTION

1.1 Original Loan Agreement with Monadelphous Group Limited

In September 2012, the Company entered into a loan agreement with Monadelphous Group Limited (**Monadelphous**) (**Loan Agreement**) under which Monadelphous advanced funds to the Company in consideration for the issue of Shares to enable the Company to pay costs associated with the construction of the Western Metropolitan Regional Council DiCOM Expansion Project (**Project**), a joint venture between the Company and Monadelphous (**Joint Venture**).

The Loan Agreement has been amended by the parties on a number of occasions. On 4 August 2016 the Company and Monadelphous entered into the Loan Amendment and Restatement Deed (**Loan Restatement**) to further amend the Loan Agreement and consolidate the amendments to the Loan Agreement.

Since 2012, Monadelphous has made a number of further advances to the Company under the Loan Agreement. A total of \$16,544,823 was owing by the Company to Monadelphous as at 4 August 2016. The Company must repay the outstanding advances (including capitalised interest) to Monadelphous within 28 days of receipt of written notice from Monadelphous.

Monadelphous has an option to convert the loan into Shares, subject to Shareholder approval. Further details of this option are set out in section 1.3 below.

Repayment of the loan is secured by a general security agreement entered into by Monadelphous and the Company in 2012 (**Monadelphous Security Agreement**), under which the Company has granted a security interest over all of its assets and undertakings to Monadelphous in respect of the loan (subject to certain limitations). Further details of the Monadelphous Security Agreement are set out in sections 1.2 and 2 below.

1.2 Security for repayment of Loan

Repayment of the Loan is secured by a security interest over all of the Company's assets and undertakings in favour of Monadelphous.

At the time when Monadelphous and the Company entered into the original Loan Agreement and Monadelphous Security Agreement, Monadelphous held less than 10% of the issued capital of the Company, and accordingly, Listing Rule 10.1 approval was not required for the grant of the Monadelphous Security Agreement.

Monadelphous became a "substantial holder" in the Company for the purposes of Listing Rule 10.1 on 3 April 2014. As a result, further advances of loan funding under the Loan Agreement required compliance with Listing Rule 10.1, as the grant of security over the assets of the Company in favour of Monadelphous is deemed to be a disposal of the assets of the Company to a substantial holder for the purpose of the ASX Listing Rules, and ASX treats further advances as a grant of additional security.

On 11 February 2015, the Company obtained from ASX a waiver of Listing Rule 10.1 (**Waiver**) in relation to the further advance of loan funding by Monadelphous to the Company under the Loan Agreement.

The Waiver permitted the Company to grant security to Monadelphous in relation to the existing \$3,000,000 advance, and an additional \$4,600,000 advanced, by Monadelphous to the Company under the Loan Agreement.

ASX granted an updated Waiver on 22 April 2016 to permit the Monadelphous Security Agreement to cover an additional \$6,000,000 advanced to the Company under the Loan Agreement. As a result of the updated Waiver, the total secured amount under the Monadelphous Security Agreement is currently \$13,600,000.

The Waiver (including the updated Waiver) was granted on conditions including that:

- (a) the Monadelphous Security Agreement document include a term that if an event of default occurs and Monadelphous exercises its rights under the Monadelphous Security Agreement, neither Monadelphous nor any of its associates can acquire any legal or beneficial interest in an asset of the Company in full or part satisfaction of the Company's obligations under the Loan Agreement, or otherwise deal with the assets of the Company, without the Company first having complied with any applicable Listing Rules, including Listing Rule 10.1, other than as required by law or through a receiver, or receiver and manager (or any other person acting on behalf of Monadelphous) appointed by Monadelphous exercising its power of sale under the Monadelphous Security Agreement and selling the assets to an unrelated third party on arm's length commercial terms and conditions and distributing the cash proceeds to Monadelphous in accordance with its legal entitlements;
- (b) any variations to the terms of the facility under the Loan Agreement or Monadelphous Security Agreement which is:
 - (i) not a minor change; or
 - (ii) inconsistent with the terms of the waiver,must be subject to Shareholder approval; and
- (c) the Company must seek to discharge the Monadelphous Security Agreement when the funds under the Loan Agreement are repaid, or if it is not discharged, seek Shareholder approval for the continuation of the Monadelphous Security Agreement for any subsequent amount advanced under the Loan Agreement.

In accordance with the terms of the Waiver, in May 2015 the Monadelphous Security Agreement was amended to include a limitation to the effect that if a default occurs and Monadelphous exercises its rights, neither Monadelphous nor any of its associates can acquire any legal or beneficial interest in an asset of the Company in full or part satisfaction of the Company's obligations under the Loan Agreement, or otherwise deal with the Company's assets, except:

- (a) where the Company has complied with ASX Listing Rule 10.1;
- (b) as required by law; or

- (c) through a receiver or a receiver and manager appointed by Monadelphous exercising its power of sale and selling the assets to an unrelated third party on arm's length commercial terms and conditions and distributing the cash proceeds to Monadelphous in accordance with its legal entitlements,

(the **Limitation**).

Pursuant to the Sale Agreement, the Company has agreed to seek Shareholder approval pursuant to Listing Rule 10.1 so that:

- (a) the Waiver is no longer required and the conditions set out in the Waiver will cease to apply to Monadelphous; and
- (b) the Limitation in the Monadelphous Security Agreement will cease to apply to Monadelphous.

This approval is sought pursuant to Resolution 1. Further details in relation to Resolution 1, including a summary of the Monadelphous Security Agreement, is set out in section 2 below.

1.3 **Monadelphous' option to convert loan to Shares**

Pursuant to the Loan Agreement (as amended by the Loan Restatement and the Sale Agreement referred to in section 1.4 below), Monadelphous is entitled to convert all of:

- (a) the principal amount outstanding under the Loan Agreement, including capitalised interest; and
- (b) all further amounts that have been, or are deemed to have been, drawn down pursuant to the Loan Restatement and the Sale Agreement,

(together, the **Loan**) into fully paid ordinary shares in the Company (**Shares**), subject to the receipt of any requisite Shareholder approvals.

Monadelphous has given an undertaking to the Company that it will not convert any of the Loan prior to Completion of the Sale Agreement. This undertaking will cease if the Sale Agreement is terminated for any reason.

1.4 **Purchase of \$11.5 million of Loan by Xiaoqing Environmental Protection Technology Co. Ltd**

As announced to ASX on 5 August 2016, Xiaoqing Environmental Protection Technology Co. Ltd (**XEPT**) has agreed to purchase \$11.5 million of the Loan (**Purchased Loan Amount**) from Monadelphous.

The Company, Monadelphous and XEPT have entered into the Tripartite Deed of Sale and Cooperation – AnaeCo Loan (**Sale Agreement**) to record the terms of:

- (a) the sale and purchase of the Purchased Loan Amount;
- (b) the treatment of the amount of the Loan exceeding \$11.5 million which is to be retained by Monadelphous (**Retained Loan Amount**); and
- (c) the terms of the conversion of the Purchased Loan Amount and the Retained Loan Amount into Shares.

Pursuant to the Sale Agreement, the parties have agreed that, subject to the satisfaction of certain conditions precedent (including the Company obtaining the requisite Shareholder approvals):

- (a) Monadelphous will assign its right and entitlement to the Purchased Loan Amount under the Loan Agreement to XEPT at completion of the Sale Agreement (**Completion**) for consideration of payment by XEPT to Monadelphous of \$11.5 million;
- (b) at Completion, the Company shall issue 4,151,515,217 Shares to Monadelphous in satisfaction of the repayment of the Retained Loan Amount (up to a maximum of \$5,729,091). This will result in Monadelphous having total voting power in the Company of 30.0% (when aggregated with Monadelphous' existing holding, on a fully diluted basis post Completion);
- (c) Monadelphous shall forgive and discharge the Company from repaying any amount of the Retained Loan Amount exceeding \$5,729,091; and
- (d) at Completion, the Company shall issue 8,333,333,333 Shares to XEPT in satisfaction of the repayment of the Purchased Loan Amount. This will result in XEPT having total voting power in the Company of 55.0% on a fully diluted basis post Completion.

1.5 Shareholder approvals

In accordance with the Sale Agreement, the Company has agreed to seek the following Shareholder approvals:

- (a) Shareholder approval for the purpose of Listing Rule 10.1 to enable the obligation to repay the Loan to be secured by the Security up to the full amount of the Loan, so that the Waiver and the Limitation shall cease to apply;
- (b) Shareholder approval for the purpose of Section 611 Item 7 of the Corporations Act to permit Monadelphous to convert the Retained Loan Amount (up to a maximum of \$5,729,09) into 4,151,515,217 Shares at Completion (resulting in Monadelphous having voting power in the Company of 30.0% on a fully diluted basis post Completion); and
- (c) Shareholder approval for the purpose of Section 611 Item 7 of the Corporations Act to permit XEPT to convert the Purchased Loan Amount into 8,333,333,333 Shares at Completion (resulting in XEPT having voting power in the Company of 55.0% on a fully diluted basis post Completion).

Completion of the Sale Agreement is conditional upon the passing of each of Resolutions 1, 2, and 3 at the Meeting. Accordingly, if any of Resolutions 1, 2 or 3 are not passed, the transactions set out in the Sale Agreement will not proceed.

1.6 Summary of the Sale Agreement

The material terms and conditions of the Sale Agreement are as follows:

- (a) **Assignment of Purchased Loan Amount:** In consideration for payment of the purchase price of \$11.5 million, Monadelphous shall transfer the Purchased Loan Amount to XEPT at Completion of the Sale Agreement. XEPT shall assume all of Monadelphous' obligations and liabilities under the Loan Agreement to the extent of the Purchased Loan Amount;

- (b) **Excluded Assets:** Monadelphous shall retain all of its interest in:
- (i) the Retained Loan Amount;
 - (ii) all contractual agreements between Monadelphous and AnaeCo other than the Loan Agreement; and
 - (iii) the sum of all amounts of principal, interest or fees actually paid by AnaeCo to Monadelphous in relation to the Loan prior to or at Completion;
- (c) **Conditions precedent to Completion:** Completion of the sale of the Purchased Loan Amount is conditional on:
- (i) the Sale Agreement and the Loan Restatement being executed by each of the parties thereto;
 - (ii) the Company obtaining Shareholder approval for the purpose of Listing Rule 10.1 to enable the obligation to repay the Loan to be secured by the Security up to the full amount of the Loan, so that the Waiver and the Limitation shall cease to apply;
 - (iii) the Company obtaining Shareholder approval for the purpose of Section 611 Item 7 of the Corporations Act to enable XEPT to convert the Purchased Loan Amount into that number of Shares equal to 55.0% of the issued capital of the Company (on a fully diluted basis post Completion);
 - (iv) the Company obtaining Shareholder approval for the purpose of Section 611 Item 7 of the Corporations Act to enable Monadelphous to convert the Retained Loan Amount (up to a maximum of \$5,729,091) into that number of Shares which would result in Monadelphous holding up to a maximum of 30.0% of the issued capital of the Company (when aggregated with its existing holding on a fully diluted basis post Completion);
 - (v) XEPT has obtained any necessary Chinese regulatory approvals in relation to its international investment;
 - (vi) legal counsel for XEPT confirming that it has received and is holding the full amount of the Purchase Price in its trust account pending Completion; and
 - (vii) no event of default under the Loan Agreement or breach by AnaeCo of its obligations under the Sale Agreement.

If any of the above conditions are not satisfied (or waived by the relevant parties, if permitted) by 31 December 2016 (or such later date agreed between Monadelphous and XEPT), the Sale Agreement may be terminated by either Monadelphous or XEPT;

- (d) **AnaeCo's obligations:** As soon as practicable after the date of the Sale Agreement, and in any event prior to 30 September 2016 (or such later date agreed between the parties), the Company must do all such acts and things as may be required to obtain the approvals described in section 1.5 above. AnaeCo, Monadelphous and XEPT have agreed to extend this date to 17 October 2016, being the date of the Meeting;

- (e) **Conversion:** At Completion:
- (i) Monadelphous shall be deemed to have given a conversion notice for the Retained Loan Amount (up to a maximum of \$5,729,091) and the Company shall issue to Monadelphous that number of Shares which, when aggregated with Monadelphous' existing shareholding, results in Monadelphous holding up to a maximum of 30.0% of the issued capital of the Company (on a fully diluted basis); and
 - (ii) XEPT shall be deemed to have given a conversion notice for the Purchased Loan Amount and the Company shall issue to XEPT that number of Shares equal to 55.0% of the issued capital of the Company (on a fully diluted basis);
- (f) **Other Completion obligations:** At Completion:
- (i) XEPT must pay Monadelphous the Purchase Price;
 - (ii) Monadelphous shall ensure that the Company has a minimum cash balance of \$1.5 million (after accounting for all current and non-current liabilities of the Company) (**Minimum Cash Balance**). To this end, at Completion, the Company shall be deemed to have drawn down an advance under the Loan Agreement sufficient to result in the Company having the Minimum Cash Balance, and this draw down shall be deemed to form part of the Loan; and
 - (iii) Monadelphous shall refund to the Company an amount equal to 50% of the proceeds of the 2014/2015 Research and Development Claim (approximately \$2.2 million) which had been paid by the Company to Monadelphous as a loan repayment in November 2015.
- (g) **Retained Loan Amount forgiveness:** At Completion, upon receipt of the Purchase Price and the occurrence of the conversions referred to in paragraph 1.6(e) above, Monadelphous shall forgive and discharge the Company from all obligations and liabilities to pay any amount of the Retained Loan Amount that exceeds the \$5,729,091 that was converted (**Forgiven Amount**);
- (h) **2015/2016 Research and Development Claim:** After Completion, the Company must use all reasonable endeavours to submit a Research and Development Claim for the 2015/2016 financial year. In consideration for Monadelphous' forgiveness of the Forgiven Amount, if the Company receives a cash refund as a result of submitting the Research and Development Claim, it must pay to Monadelphous an amount equal to the sum of:
- (i) 85% of the first \$4 million of the refund; and
 - (ii) 70% of the amount of the cash refund that exceeds \$4 million;
- (i) **Indemnity for pre Completion liabilities:** If the Company identifies an expense within 90 days of Completion that:
- (i) relates to the period before Completion;
 - (ii) relates to the Project or a corporate overhead of the Company;

- (iii) is not due to any fraud or wilful misconduct of the Company; and
- (iv) is not itemised in the list of the Company's liabilities delivered by Monadelphous to XEPT at Completion,

then Monadelphous must pay the amount to the Company on demand;

(j) **Project indemnity and release:**

- (i) On and from Completion, Monadelphous shall indemnify the Company and XEPT against any claim in connection with the various Project agreements related to the Project, or an allegation by the client against AnaeCo of misleading or deceptive conduct, or under Schedule 2 of the *Competition and Consumer Act 2010 (Cth)*; and
- (ii) Subject to the indemnity referred to in paragraph (i) above, on and from Completion, each of Monadelphous and the Company release each other from all obligations and claims under or in connection with the Project documents, and any claim for contribution one would otherwise have against the other as a consequence of the joint and several liability under the D&C Agreement;

(k) **Indemnities in respect of the Loan Agreement:**

- (i) With effect from Completion, XEPT indemnifies Monadelphous against all claims and costs resulting from any failure of XEPT to comply with the Loan Agreement; and
- (ii) The Company is liable to Monadelphous in respect of any claims and costs in respect of the Loan Agreement to the extent that they are identified on or prior to Completion and can be capitalised in accordance with the Loan Agreement, provided that any resulting issue of Shares to Monadelphous will not result in BXPEG obtaining voting power of less than 55.0% in the Company; and

(l) **Release of security:** With effect from Completion, Monadelphous shall release the Company from:

- (i) all of the security interests constituted by the Monadelphous Security Agreement; and
- (ii) all its present and future obligations, claims, and liabilities relating to the provisions of the Loan Agreement and the Monadelphous Security Agreement.

1.7 About Monadelphous

Monadelphous is a leading Australian engineering group providing construction, maintenance and industrial services to the resources, energy and infrastructure sectors.

The Company has two operating divisions – Engineering Construction, providing large-scale multidisciplinary project management and construction services, and Maintenance and Industrial Services, specialising in the planning, management and execution of mechanical and electrical maintenance services, shutdowns, fixed plant maintenance services and sustaining capital works.

Monadelphous is headquartered in Perth, Western Australia, with a major office in Brisbane, Queensland, and projects, facilities and workshops across Australia and in New Zealand, China and Papua New Guinea.

Monadelphous' ordinary shares are listed on the Australian Securities Exchange (ASX: MND).

Further information on Monadelphous can be found on the Monadelphous website www.monadelphous.com.au or at www.asx.com.au.

1.8 About XEPT

XEPT specialises in environmental management and engineering in China. It is an environmental protection hi-tech enterprise integrating scientific research, design, manufacturing, investment, construction, installation & commissioning, and after-sale services. Its main business segments are water treatment, solid waste treatment and renewable energy to which it provides four service areas, engineering, operation management, equipment manufacturing and technical industrialisation.

XEPT was established in 1989 and is a privately owned enterprise. Its business operations reach provinces and regions such as Beijing, Hebei, Jilin, Heilongjiang, Shandong, Shanxi, Sichuan, Fujian, Guangdong and Xinjiang.

The group has participated in several thousand projects involving municipal water treatment and industrial wastewater treatment, garbage transfer and recycling, sludge treatment and disposal and rural biogas. The roles played by XEPT have included investment and construction, merger and acquisition, contracting construction and operations.

Its businesses involve various environmental protection fields such as environmental engineering, water supply and sewage works, and water treatment for buildings, garbage transfer, garbage recycling and new energy developments. The group is able to undertake all kinds of environmental protection engineering and scientific research and designs for wastewater treatment, reuse of recycled water, feed-water treatment, collection and recycled utilisation of solid wastes, recycling of rainfall flood, biomass energy, environmental impact assessment, and ecological restoration.

1.9 Interests and Recommendations of Directors

None of the Directors have any personal interests in the outcome of Resolutions 1, 2 or 3.

All of the Directors are of the opinion that the proposed transaction under the Sale Agreement and the Loan Restatement (together, the **Transaction**) is in the best interests of Shareholders and accordingly, the Directors unanimously recommend Shareholders to vote in favour of Resolutions 1, 2 and 3. The Directors have approved the proposal to put Resolutions 1, 2 and 3 to Shareholders.

The Director's recommendations are based on the following reasons:

- (a) Converting the Retained Loan Amount (up to \$5,729,091) and the Purchased Loan Amount (\$11,500,000) to equity removes the requirement to raise this amount of cash by other means to make the loan repayment.
- (b) The Company will be debt free at Completion.

- (c) The transaction also provides AnaeCo with an appropriate amount of working capital at Completion, being \$1,500,000 of free cash after accounting for all liabilities, and a further \$2,200,000 relating to funds received from a 2014/2015 R&D Claim which had been used to make a loan repayment to Monadelphous in 2015 which will be paid to the Company at Completion.
- (d) The transaction which is the subject of the Sale Agreement, in conjunction with the recent completion of the DiCOM™ System Project in Shenton Park, is the start of the next phase of growth for AnaeCo.
- (e) XEPT is a substantial and successful organisation which is well established in the water, solid waste and renewable energy sectors in China. It is well positioned to provide the commercial and technical resources AnaeCo has been seeking to support its development and growth in Australia and in the Asian region. It will be beneficial to have XEPT as a cornerstone shareholder of AnaeCo.
- (f) For the purpose of ASX Listing Rules 10.1 and 10.10.2, the Independent Expert provided an opinion that the proposed terms of the security to be granted to Monadelphous (for which Shareholder approval is sought pursuant to Resolution 1) are fair and reasonable to the non-associated Shareholders of the Company.
- (g) For the purpose of Section 611 Item 7 of the Corporations Act, the Independent Expert has analysed the proposed issue of Shares to Monadelphous (for which Shareholder approval is sought pursuant to Resolution 2) and concluded that the proposed issue is fair and reasonable to the non-associated Shareholders of the Company.
- (h) For the purpose of Section 611 Item 7 of the Corporations Act, the Independent Expert has analysed the proposed issue of Shares to XEPT (for which Shareholder approval is sought pursuant to Resolution 3) and concluded that the proposed issue is fair and reasonable to the non-associated Shareholders of the Company.

1.10 Capital structure

The capital structure of the Company following the completion of the Transaction (assuming completion of the Sale Agreement) is set out below:

	Current Relevant Interest	Current Voting Power	Relevant Interest post Transaction	Voting Power post Transaction
Shareholders (excluding Monadelphous)	2,282,656,450	85.4%	2,282,656,450	15%
Monadelphous	390,142,118	14.6%	4,541,657,335	30%
XEPT	Nil	Nil	8,333,333,333	55%
Total	2,672,798,568	100%	15,157,647,118	100%

There are no Options currently on issue, or to be issued pursuant to the Transaction.

1.11 Pro forma Statement of Financial Position

A pro-forma Statement of Financial Position of the Company post the Transaction is set out in the Independent Expert's Report enclosed with this Notice.

2. RESOLUTION 1 – APPROVAL TO GRANT SECURITY TO MONADELPHOUS GROUP LIMITED

The Independent Expert's Report prepared by Stantons International Securities for the purpose of ASX Listing Rule 10.10.2 concludes that the proposals outlined in Resolution 1, whereby AnaeCo shareholders may grant approval of the charge over the company's assets in favour of Monadelphous, are fair and reasonable to Shareholders not associated with Monadelphous, taking into account the factors noted below and in section 9 of this report and the comments made in this Explanatory Statement to Shareholders accompanying the Notice. Shareholders are referred to the Independent Expert's Report attached as Annexure A to this Notice of Meeting.

2.1 Background

As outlined in section 1.2 above, Resolution 1 seeks Shareholder approval for the grant by the Company of the security interest (the **Security**) over all of its assets and undertakings (together, the **Collateral**), in favour of Monadelphous to secure repayment of the Loan to Monadelphous pursuant to the Loan Agreement.

By obtaining this approval, the Waiver will no longer be required, and the limitations on the Security contained in the Waiver and Monadelphous Security Agreement will cease to apply to Monadelphous.

As a result, in the event of default by the Company under the Loan Agreement, Monadelphous will have the right to:

- (a) do anything that the Company (or the Company's directors) could do in relation to the Collateral, including selling or otherwise dealing with the Collateral;
- (b) collect Company's trade debts or other accounts receivable; and
- (c) appoint a receiver in relation to the Collateral.

A summary of the Monadelphous Security Agreement is set out in section 2.2 below.

2.2 Summary of Monadelphous Security Agreement

The Company has entered into the Monadelphous Security Agreement with Monadelphous (the **Secured Party**). The material terms of the Monadelphous Security Agreement are as follows:

Pursuant to the Monadelphous Security Agreement:

- (a) **Grant of security:** The Company secures the payment of the secured money and the punctual performance of all obligations owed to Monadelphous under the Monadelphous Security Agreement. The secured money is all money and damages that the Company is or may become actually or contingently liable to pay to or for the account of Monadelphous, for any reason under or in connection with a transaction document, or as a result of a breach of or default under or in connection with a Transaction Document (**Secured Money**). The Loan Agreement, among other documents, falls within the definition of transaction document.
- (b) **The security:** The Company has granted to Monadelphous a PPSA security interest over all PPSA personal property and a fixed charge over all other property and the Company also assigns all its present and after-acquired

interests in 'negotiable instruments' and transfers all its present and after-acquired interests in 'accounts' and 'chattel paper'.

- (c) **The secured property:** The secured property is all PPSA personal property which encompasses all of the Company's right title and interest in all present and after-acquired personal property, all proceeds and PPSA retention of title property as well as all other property which includes all present and after-acquired property of the Company that is not PPSA personal property.
- (d) **Events of Default:** The events of default trigger the rights of Monadelphous to enforce the security. Each of the following is an event of default:
- (i) where the Company fails to pay or repay any part of the secured money when due, or fails to comply with any of their obligations under the transaction documents or with any condition of any waiver or consent by Monadelphous under or in connection with any transaction document;
 - (ii) where the Company becomes insolvent;
 - (iii) where the Company does not comply with its obligations under clause 5.5(2) of the Monadelphous Security Agreement, which provides that where the Company is entitled to create another security interest, they must give Monadelphous 7 days' notice prior to creating that security interest and if Monadelphous requests, enter into a priority agreement;
 - (iv) where Collateral is or will be able to be transferred in breach of a provision of the Monadelphous Security Agreement which prohibits such a transfer;
 - (v) where, other than by any act of Monadelphous, any security interest created by the Monadelphous Security Agreement or any collateral security ceases to have the priority that it purports to have under the Monadelphous Security Agreement or collateral security, ceases or fails to attach to any Collateral that is intended to be the subject of the Monadelphous Security Agreement or collateral security or ceases to secure the payment of the money or the performance of the obligations that it purports to secure
 - (vi) where the Company does not comply with its obligations under any priority agreement entered into in accordance with the Security; or
 - (vii) where the Company fails to provide details of any serial numbered collateral to Monadelphous (being any item of personal property that may or must be described by a serial number in a registration on the PPS Register).
- (e) **Rights of the Secured Party on Default:** If an Event of Defaults occurs each security interest arising under the Security becomes immediately enforceable, and Monadelphous may by notice to the Company declare all or any part of the Secured Money to be immediately due and payable and Monadelphous may do anything that the Company could do in relation to the Collateral, has all other rights conferred by law in relation to the Collateral, may appoint one or more Receivers, and may do anything that a Receiver may do as conferred by the Security.

- (f) **Limitation on the rights of the Secured Party on Default:** If an Event of Default occurs and Monadelphous exercises its rights, neither Monadelphous nor any of its associates can acquire any legal or beneficial interest in an asset of the Company in full or part satisfaction of the Company's obligations under the Loan Agreement, or otherwise deal with the Company's assets, except where the Company has complied with ASX Listing Rule 10.1, as required by law or through a receiver or a receiver and manager appointed by Monadelphous exercising its power of sale and selling the assets to an unrelated third party on arm's length commercial terms and conditions and distributing the cash proceeds to Monadelphous in accordance with its legal entitlements.

2.3 Listing Rule 10.1

Listing Rule 10 deals with transactions between an entity (or any of its subsidiaries) and persons in a position to influence the entity.

Listing Rule 10.1 provides that an entity (or any of its subsidiaries) must not acquire a "substantial asset" from, or dispose of a substantial asset to, any of the following persons without the approval of the entity's security holders:

- (a) a related party;
- (b) a subsidiary;
- (c) a "substantial holder", if the person and the person's associates have a relevant interest, or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to the voting securities;
- (d) an associate of a person referred to in (a) to (c) above; or
- (e) a person whose relationship to the entity is such that, in ASX's opinion, the transaction should be approved by security holders.

Monadelphous is a "substantial holder" for the purposes of Listing Rule 10.1 because it holds a relevant interest in more than 10% (namely 14.6%) of the Company's issued Shares.

Under Listing Rule 10.2, an asset is "substantial" if its value, or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the company as set out in the latest accounts given to ASX under the Listing Rules.

Although the Company has not entered into any agreement to dispose of any of its assets under the Monadelphous Security Agreement or the Sale Agreement, ASX considers, for the purpose of the Listing Rules, that the grant of security over the Company's assets amounts to a 'disposal' of its assets.

As noted elsewhere in this Notice, Shareholder approval for the grant of the Security in favour of Monadelphous has not previously been obtained because the Monadelphous Security Agreement was initially granted before Listing Rule 10.1 was applicable, the Company subsequently obtained ASX waivers of Listing Rule 10.1 described above in relation to the increase of the amount drawn under the Loan Agreement, and further, the Monadelphous Security Agreement contains a limitation to the effect that if a default occurs and Monadelphous exercises its rights, neither Monadelphous nor any of its associates can acquire any legal or beneficial interest in an asset of the Company in full or part satisfaction of the Company's obligations under the Loan Agreement, or otherwise deal with the Company's assets, except:

- (a) where the Company has complied with ASX Listing Rule 10.1;
- (b) as required by law; or
- (c) through a receiver or a receiver and manager appointed by Monadelphous exercising its power of sale and selling the assets to an unrelated third party on arm's length commercial terms and conditions and distributing the cash proceeds to Monadelphous in accordance with its legal entitlements.

Shareholder approval is now being sought for the grant of the Security in favour of Monadelphous because, pursuant to the Sale Agreement, the Company has agreed to seek Shareholder approval for the purpose of Listing Rule 10.1 to remove the need for the Waiver and the Limitation.

The passing of Resolution 1 is not subject to the passing of either Resolutions 2 or 3.

2.4 Independent Expert's Report

The Independent Expert has been asked to prepare a report, for the purpose of ASX Listing Rule 10.10.2, on whether the granting of the Security to Monadelphous is fair and reasonable. **The Independent Expert has concluded that the granting of the Security is fair and reasonable to non-associated Shareholders.**

Shareholders are urged to consider the Independent Expert's Report in detail and if in doubt seek advice from their professional advisers prior to voting.

3. RESOLUTIONS 2 AND 3 – APPROVAL OF ISSUE OF SHARES TO MONADELPHOUS GROUP LIMITED AND XIAOQING ENVIRONMENTAL PROTECTION TECHNOLOGY CO. LTD UPON LOAN CONVERSION

3.1 Overview of Resolution 2

As set out in section 1.3 above, at Completion of the Sale Agreement, Monadelphous shall be deemed to have given a conversion notice for the amount of the Retained Loan Amount (up to a maximum of \$5,729,091) and the Company shall issue to Monadelphous that number of Shares which will result in Monadelphous holding 30.0% of the issued ordinary capital of the Company (when aggregated with the existing shareholding of Monadelphous on a fully diluted basis post Completion).

Accordingly, Resolution 2 seeks Shareholder approval for the purpose of Item 7 of Section 611 of the Corporations Act to allow the Company to issue up to 4,151,515,217 Shares to Monadelphous upon conversion of the Retained Loan Amount at Completion, which will result in Monadelphous' voting power in the Company increasing from 14.6% up to 30.0%.

The passing of Resolution 2 is subject to the passing of Resolutions 1 and 3.

3.2 Overview of Resolution 3

Resolution 3 seeks Shareholder approval for the purpose of Item 7 of Section 611 of the Corporations Act to allow the Company to issue up to 8,333,333,333 Shares to XEPT upon conversion of the Purchased Loan Amount at Completion.

This issue of Shares will result in XEPT's voting power in the Company increasing from 0% up to a potential maximum of 55.0%.

The passing of Resolution 3 is subject to the passing of Resolutions 1 and 2.

3.3 Section 606 of the Corporations Act – Statutory Prohibition

(a) Overview

Pursuant to Section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (i) from 20% or below to more than 20%; or
- (ii) from a starting point that is above 20% and below 90%.

(Prohibition).

(b) Voting Power

The voting power of a person in a body corporate is determined in accordance with Section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

(c) Relevant Interests

Section 608(1) of the Corporations Act provides that a person has a relevant interest in securities if they:

- (i) are the holder of the securities;
- (ii) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (iii) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

In addition, Section 608(3) of the Corporations Act provides that a person has a relevant interest in securities that any of the following has:

- (iv) a body corporate in which the person's voting power is above 20%;
- (v) a body corporate that the person controls.

(d) Associates

For the purposes of determining voting power under the Corporations Act, a person (**second person**) is an "associate" of the other person (**first person**) if:

- (i) (pursuant to Section 12(2) of the Corporations Act) the first person is a body corporate and the second person is:
 - (A) a body corporate the first person controls;

- (B) a body corporate that controls the first person; or
 - (C) a body corporate that is controlled by an entity that controls the person;
- (ii) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
 - (iii) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to the company's affairs.

Associates are, therefore, determined as a matter of fact. For example where a person controls or influences the board or the conduct of a company's business affairs, or acts in concert with a person in relation to the entity's business affairs.

(e) Control

The Corporations Act defines "control" and "relevant agreement" very broadly as follows:

- (i) Under section 50AA of the Corporations Act control means the capacity to determine the outcome of decisions about the financial and operating policies of the company.
- (ii) Under section 9 of the Corporations Act, a relevant agreement includes an agreement, arrangement or understanding whether written or oral, formal or informal and whether or not having legal or equitable force.

(f) Associates of Monadelphous and XEPT

Monadelphous has a number of associates in relation to the Company for the purpose of Section 610 of the Corporations Act (including Monadelphous' controlled entities as described in its annual reports from time to time). These associates are listed in Part I of Schedule 1.

XEPT does not have any associates in relation to the Company for the purpose of Section 610 of the Corporations Act.

Despite Monadelphous and XEPT not being associates, both have agreed (given that each of Resolutions 2 and 3 are conditional on each other) that the Company will disregard any votes by either Monadelphous or XEPT (or any of their associates) on both Resolution 2 and Resolution 3.

3.4 Reason Section 611 Approval is Required

Item 7 of Section 611 of the Corporations Act provides an exception to the Prohibition, whereby a person may acquire a relevant interest in a company's voting shares with shareholder approval.

As at the date of this Notice, Monadelphous has a relevant interest in 390,142,118 Shares, representing 14.6% voting power in the Company.

Following the issue of Shares to Monadelphous at Completion, Monadelphous will have a relevant interest in 4,541,657,335 Shares in the Company, representing 30.0%

voting power in the Company. This assumes that no other Shares are issued other than the issue of 8,333,333,333 Shares to XEPT at Completion.

Accordingly, Resolution 2 seeks Shareholder approval for the purpose of Section 611 Item 7 and all other purposes to enable the Company to issue Shares to Monadelphous.

As at the date of this Notice, XEPT does not have a relevant interest in any Shares, and has 0% voting power in the Company.

Following the issue of Shares to XEPT at Completion, XEPT will have a relevant interest in 8,333,333,333 Shares in the Company, representing 55.0% voting power in the Company. This assumes that no other Shares are issued other than the issue of 4,151,515,217 Shares to Monadelphous at Completion.

Accordingly, Resolution 3 seeks Shareholder approval for the purpose of Section 611 Item 7 and all other purposes to enable the Company to issue Shares to XEPT.

Pursuant to ASX Listing Rule 7.2 (Exception 16), Listing Rule 7.1 does not apply to an issue of securities approved for the purpose of Item 7 of Section 611 of the Corporations Act. Accordingly, if Shareholders approve the issue of securities pursuant to Resolution 2, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 and the additional 10% annual capacity set out in ASX Listing Rule 7.1A without the requirement to obtain prior Shareholder approval.

3.5 Specific Information required by Section 611 Item 7 of the Corporations Act and ASIC Regulatory Guide 74 in relation to Resolution 2

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for Item 7 of Section 611 of the Corporations Act pursuant to Resolution 2.

Shareholders are also referred to the Independent Expert's Report prepared by Stanton Partners annexed to this Explanatory Statement.

(a) Identity of the Acquirer and its Associates

It is proposed that Monadelphous will be issued the Shares as set out in section 1.6(e) of this Explanatory Statement.

Monadelphous has a number of associates (including Monadelphous' controlled entities as described in its annual reports from time to time). A list of Monadelphous' associates is provided in Part I of Schedule 1.

No associates of Monadelphous currently have or will have a relevant interest in the Company.

(b) Relevant Interest and Voting Power

(i) Relevant Interest

The relevant interests of Monadelphous in voting shares in the capital of the Company (both current, and following the issue of the Shares to Monadelphous as contemplated by this Notice) are set out in the table below:

Party	Capacity	Relevant Interest as at the date of this Notice of Meeting	Relevant Interest after Completion
Monadelphous	Holder	390,142,118	4,541,657,335

The Sale Agreement, the Loan Restatement and the Loan Agreement are the only relevant agreements in relation to the Company's affairs.

(ii) **Voting Power**

The voting power of Monadelphous (both current, and following the issue of Shares to Monadelphous as contemplated by this Notice) is set out in the table below:

Party	Voting Power as at the date of this Notice of Meeting	Voting Power after Completion
Monadelphous	14.6%	30.0%

Further details on the voting power of Monadelphous are set out in the Independent Expert's Report.

Each of Monadelphous' associates (including its controlled entities) are deemed to have the same voting power as Monadelphous in respect of the Company.

(iii) **Summary of increases**

From the above chart it can be seen that the maximum relevant interest that Monadelphous will hold Completion is 4,541,657,335 Shares, and the maximum voting power that Monadelphous will hold is 30.0%.

This represents a maximum increase in voting power of 15.4% (being the difference between 14.6% and 30.0%).

(iv) **Assumptions**

Note that the following assumptions have been made in calculating the above:

- (A) the Company has 2,672,798,568 Shares on issue as at the date of this Notice of Meeting;
- (B) the Company does not issue any Shares other than pursuant to the Sale Agreement;
- (C) Monadelphous does not acquire any additional Shares other than under the Sale Agreement; and
- (D) the Company issues Shares to XEPT in accordance with the Sale Agreement.

(c) **Reasons for the proposed issue of securities**

The reason for the issue of Shares to Monadelphous is the conversion of the Retained Loan Amount (up to a maximum of \$5,729,091) into Shares in accordance with the Sale Agreement.

(d) **Date of proposed issue of securities**

The Shares the subject of Resolution 2 will be issued at Completion of the Sale Agreement, which shall occur after the satisfaction of all conditions precedent to the Sale Agreement. If the conditions precedent to the Sale Agreement are not satisfied by 31 December 2016 (or such later date agreed between the Company, Monadelphous and XEPT), any party may terminate the Sale Agreement.

(e) **Material terms of proposed issue of securities**

The Shares will be issued on the same terms as the Company's existing fully paid ordinary shares.

The deemed price of the Shares issued to Monadelphous will be 0.138 cents per Share.

(f) **Monadelphous' Intentions**

Other than as disclosed elsewhere in this Explanatory Statement, the Company understands that Monadelphous:

- (i) has no present intention of making any significant changes to the business of the Company;
- (ii) has no present intention to inject further capital into the Company, other than as described elsewhere in this Notice;
- (iii) has no present intention of making changes regarding the future employment of the present employees of the Company;
- (iv) does not intend to redeploy any fixed assets of the Company;
- (v) does not intend to transfer any property between the Company and Monadelphous;
- (vi) has no intention to change the Company's existing policies in relation to financial matters or dividends; and
- (vii) intends to nominate a director to the Board in due course after Completion of the Sale Agreement. Monadelphous has not made any determination regarding the identity of its nominee.

These intentions are based on information concerning the Company, its business and the business environment which is known to Monadelphous at the date of this document.

These present intentions may change as new information becomes available, as circumstances change or in the light of all material information, facts and circumstances necessary to assess the operational, commercial, taxation and financial implications of those decisions at the relevant time.

(g) **Interests and Recommendations of Directors**

None of the current Board members have a material personal interest in the outcome of Resolution 2.

All of the Directors are of the opinion that the Sale Agreement is in the best interests of Shareholders and, accordingly, the Directors unanimously recommend that Shareholders vote in favour of Resolution 2. The Directors' recommendations are based on the reasons outlined in section 3.7(h) below.

The Directors are not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 2.

(h) **Advantages of the Issue – Resolution 2**

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 2:

- (i) Converting the Retained Loan Amount (up to \$5,729,091) to equity removes the requirement to raise this amount of cash by other means to make the loan repayment.
- (ii) On the basis that Resolution 3 is also approved by Shareholders, the combination of the resulting loan conversions and forgiveness of the Forgiven Amount will mean the Company will be debt free at Completion.
- (iii) The Independent Expert has concluded that the issue of Shares to Monadelphous is fair and reasonable to the non-associated Shareholders.

(i) **Disadvantages of the Issue – Resolution 2**

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 1:

- (i) The issue of the New Shares to Monadelphous will increase the voting power of Monadelphous from 14.6% to a maximum of 30.0%. When aggregated with the issue of Shares to XEPT, the voting power of non-associated Shareholders will be reduced from 85.4% to 15%.
- (ii) There is no guarantee that the Company's Shares will not fall in value as a result of the issue.

(j) **Independent Expert's Report – Resolution 2**

The Independent Expert's Report prepared by Stanton Partners for the purpose of Section 611 Item 7 of the Corporations Act (a copy of which is attached as Annexure A to this Explanatory Statement) assesses whether the issue of Shares to Monadelphous contemplated by Resolution 2 is fair and reasonable to the non-associated Shareholders of the Company.

The Independent Expert's Report concludes that the issue of Shares contemplated by Resolution 2 is **fair and reasonable** to the non-associated Shareholders of the Company.

The Independent Expert notes that the key advantages of the proposal raised in Resolutions 2 and 3 to the Company and existing Shareholders are as follows:

- (i) if Shareholders do not approve Resolution 2 and 3, the issue of New Shares to Monadelphous and XEPT will not occur and the Company will lose the benefit of being able to convert a liability of up to \$17,229,091, and thus remove this balance owing from the balance sheet. In order to repay this amount, the Company would need to raise monies, and given the current economic climate, it is quite difficult to raise monies, in particular an amount of \$17,229,091. The ability to convert the debt to Shares would relieve the immediate need to raise cash, to alleviate cash flow concerns in the immediate future, and position the Company to fund its operations;
- (ii) if Shareholders do not approve Resolutions 2 and 3, then there is a strong possibility that the Company cannot continue in its present form and the Company may in the worst case scenario be forced to divest itself of some or all of its assets and may be forced into liquidation
- (iii) there is an incentive for Monadelphous and XEPET to ensure the Company maintains operations and make AnaeCo a successful company and have the share price rise. All Shareholders would benefit from a rise in the Share price;
- (iv) the capital raising/debt conversion costs are estimated at \$771,000 (estimated cost of the Notice and shareholders meeting). That represents a capital raising fee of approximately 4.5% based on the total debt to be converted. The capital raising/debt conversion cost is at a favourable rate when compared to similar capital raisings where the commission rates can be approximately 5% to 7% of the capital raising plus the costs to hold the meeting of Shareholders.

The key disadvantages noted by the Independent Expert are as follows:

- (v) the number of fully paid ordinary shares on issue will rise by up to 12,484,848,550 on the issue of all of the Debt Conversion Shares to a total of 15,157,647,118 ordinary shares in AnaeCo (before any other share issues). In total this could represent an approximate 82.4% increase in the ordinary shares of the Company. This dilutes the shareholding of the existing non associated shareholders.
- (vi) an influential potential increase in shareholding of the Company may be given to Monadelphous and XEPT whose shareholding may increase up to 30% and 55% respectively, on the issue of the 12,484,848,550 Shares. Having such investment may limit the opportunity for other parties to bid for all or part of the Shares in AnaeCo in the future.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

(k) **Capital Structure**

A table showing the Company's current capital structure and the possible capital structure on completion of the Transaction, is set out in section 1.10 above.

(l) **Pro forma balance sheet**

A pro forma balance sheet of the Company post the completion of the Transaction is set out in the Independent Expert's Report in Annexure A to this Notice.

3.6 Specific Information required by Section 611 Item 7 of the Corporations Act and ASIC Regulatory Guide 74 in relation to Resolution 3

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for Item 7 of Section 611 of the Corporations Act pursuant to Resolution 3.

Shareholders are also referred to the Independent Expert's Report prepared by Stanton Partners annexed to this Explanatory Statement.

(a) **Identity of the Acquirer and its Associates**

It is proposed that XEPT will be issued the Shares as set out in section 1.6(e) of this Explanatory Statement.

XEPT does not have any associates.

(b) **Relevant Interest and Voting Power**

(i) **Relevant Interest**

The relevant interests of XEPT in voting shares in the capital of the Company (both current, and following the issue of the Shares to XEPT as contemplated by this Notice) are set out in the table below:

Party	Capacity	Relevant Interest as at the date of this Notice of Meeting	Relevant Interest after Completion
XEPT	Holder	Nil	8,333,333,333

The Sale Agreement is the only relevant agreement in relation to the Company's affairs.

XEPT will obtain a relevant interest in 8,333,333,333 Shares upon the issue of those Shares to XEPT at Completion.

(ii) **Voting Power**

The voting power of XEPT (both current, and following the issue of Shares to XEPT as contemplated by this Notice) is set out in the table below:

Party	Voting Power as at the date of this Notice of Meeting	Voting Power after Completion
XEPT	Nil	55.0%

Further details on the voting power of XEPT are set out in the Independent Expert's Report.

(iii) **Summary of increases**

From the above chart it can be seen that the maximum relevant interest that XEPT will hold is 8,333,333,333 Shares.

This represents a maximum increase in voting power of 55.0% (being the difference between 0% and 55.0%).

(iv) **Assumptions**

Note that the following assumptions have been made in calculating the above:

- (A) the Company has 2,672,798,568 Shares on issue as at the date of this Notice of Meeting;
- (B) the Company does not issue any Shares other than pursuant to the Sale Agreement;
- (C) XEPT does not acquire any additional Shares other than under the Sale Agreement; and
- (D) the Company issues Shares to Monadelphous in accordance with the Sale Agreement.

(c) **Reasons for the proposed issue of securities**

The reason for the issue of Shares to XEPT is the conversion of the Purchased Loan Amount (being \$11.5 million) into 8,333,333,333 Shares at Completion of the Sale Agreement.

(d) **Date of proposed issue of securities**

The Shares the subject of Resolution 3 will be issued at Completion of the Sale Agreement, which shall occur after the satisfaction of all conditions precedent to the Sale Agreement. If the conditions precedent to the Sale Agreement are not satisfied by 31 December 2016 (or such later date agreed between the Company, Monadelphous and XEPT), any party may terminate the Sale Agreement.

(e) **Material terms of proposed issue of securities**

The Shares will be issued on the same terms as the Company's existing fully paid ordinary shares.

The deemed price of the Shares issued to XEPT will be 0.138 cents per Share.

(f) XEPT's Intentions

XEPT has advised that the Company that it intends to:

- (i) combine the technical and commercial skills of XEPT and the Company to expand the AnaeCo business in South East Asia, Australia and China;
- (ii) investigate opportunities to expand the AnaeCo business into complementary sectors including air and new energy treatment.

Other than as disclosed above and elsewhere in this Explanatory Statement, the Company understands that XEPT:

- (i) has no present intention of making any significant changes to the business of the Company;
- (ii) has no present intention to inject further capital into the Company, other than as described elsewhere in this Notice;
- (iii) has no present intention of making changes regarding the future employment of the present employees of the Company;
- (iv) does not intend to redeploy any fixed assets of the Company;
- (v) does not intend to transfer any property between the Company and XEPT;
- (vi) has no intention to change the Company's existing policies in relation to financial matters or dividends; and
- (vii) intends to nominate a director to the Board in due course after Completion of the Sale Agreement. XEPT has not made any determination regarding the identity of its nominee.

These intentions are based on information concerning the Company, its business and the business environment which is known to XEPT at the date of this document.

These present intentions may change as new information becomes available, as circumstances change or in the light of all material information, facts and circumstances necessary to assess the operational, commercial, taxation and financial implications of those decisions at the relevant time.

(g) Interests and Recommendations of Directors

None of the current Board members have a material personal interest in the outcome of Resolution 3.

All of the Directors are of the opinion that the Sale Agreement is in the best interests of Shareholders and, accordingly, the Directors unanimously recommend that Shareholders vote in favour of Resolution 3. The Directors' recommendations are based on the reasons outlined in section 2.9(h) below.

The Directors are not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 3.

(h) **Advantages of the Issue – Resolution 3**

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 3:

- (i) Converting the Purchased Loan Amount (\$11,500,000) to equity removes the requirement to raise this amount of cash by other means to make the loan repayment.
- (ii) On the basis that Resolution 2 is also approved by Shareholders, the combination of the resulting loan conversions will mean the Company will be debt free at Completion.
- (iii) The Independent Expert has concluded that the issue of Shares to XEPT is fair and reasonable to the non-associated Shareholders.
- (iv) XEPT is a substantial and successful organisation which is well established in the water, solid waste and renewable energy sectors in China. It is well positioned to provide the commercial and technical resources AnaeCo has been seeking to support its development and growth in Australia and in the Asian region. It will be beneficial to have XEPT as a cornerstone shareholder of AnaeCo.

(i) **Disadvantages of the Issue – Resolution 3**

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 3:

- (i) the issue of the Shares to XEPT will increase the voting power of XEPT from 0% to a maximum of 55.0%. When aggregated with the issue of Shares to Monadelphous, the voting power of non-associated Shareholders will be reduced from 85.4% to 15%; and
- (ii) there is no guarantee that the Company's Shares will not fall in value as a result of the issue.

(j) **Independent Expert's Report – Resolution 3**

The Independent Expert's Report prepared by Stanton International Securities for the purpose of Section 611 Item 7 of the Corporations Act (a copy of which is attached as Annexure A to this Explanatory Statement) assesses whether the issue of Shares to XEPT contemplated by Resolution 3 is fair and reasonable to the non-associated Shareholders of the Company.

The Independent Expert's Report concludes that the issue of Shares contemplated by Resolution 3 is **fair and reasonable** to the non-associated Shareholders of the Company.

Please refer to Section 3.5(j) above for a summary of the key advantages and disadvantages of the proposal raised in Resolution 3 to the Company and existing Shareholders.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

(k) **Capital Structure**

A table showing the Company's current capital structure and the possible capital structure on completion of the Transaction, is set out in section 1.10 above.

(l) **Pro forma balance sheet**

A pro forma balance sheet of the Company post the completion of the Transaction is set out in the Independent Expert's Report in Annexure A to this Notice.

GLOSSARY

\$ means Australian dollars.

ASIC means the Australian Securities & Investments Commission.

ASX means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Chair means the chair of the Meeting.

Collateral has the meaning given to that term in section 2.2 of the Explanatory Statement.

Company means AnaeCo Limited (ACN 087 244 228).

Completion means completion of the Sale Agreement.

Constitution means the Company's constitution.

Corporations Act means the *Corporations Act 2001* (Cth).

D&C Agreement means the agreement entitled "Contract for Design and Construction DiCOM™ System Shenton Park Stage 2" between Monadelphous, the Company and Brockway DiCOM Facility Pty Ltd dated on or about 8 December 2010.

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice.

Forgiven Amount has the meaning given to that term in section 1.6(g) of the Explanatory Statement.

General Meeting or Meeting means the meeting convened by the Notice.

Joint Venture has the meaning given to that term in section 1.1 of the Explanatory Statement.

Limitation has the meaning given to that term in section 1.2 of the Explanatory Statement.

Loan means the sum of all amounts outstanding from the Company to Monadelphous under the Loan Agreement, including capitalised amounts, interest, and advances deemed to have been drawn down by the Company.

Loan Agreement means the loan agreement between the Company and Monadelphous dated on or about 25 September 2012, as amended.

Loan Restatement means the Loan Amendment and Restatement Deed dated 4 August 2016 between the Company and Monadelphous.

Minimum Cash Balance has the meaning given to that term in section 1.6(f) of the Explanatory Statement.

Monadelphous means Monadelphous Group Limited (ACN 008 988 547).

Monadelphous Project Licence means the royalty free licence pursuant to use and adapt the Company's intellectual property to be executed on or about the date of the Sale Agreement.

Monadelphous Security Agreement has the meaning given to that term in section 1.1 of the Explanatory Statement.

Notice or **Notice of Meeting** means this notice of meeting including the Explanatory Statement and the Proxy Form.

Prohibition has the meaning given to that term in section 3.3(a) of the Explanatory Statement.

Project means Stage 2 of the DiCOM™ System Project in Shenton Park.

Project Agreement means the agreement between Monadelphous and the Company in relation to the Project.

Proxy Form means the proxy form accompanying the Notice.

Purchase Price means \$11.5 million.

Purchased Loan Amount means \$11.5 million of the Loan, to be purchased by XEPT from Monadelphous pursuant to the Sale Agreement.

Resolutions means the resolutions set out in the Notice, or any one of them, as the context requires.

Retained Loan Amount means that portion of the Loan exceeding \$11.5 million, to be retained by Monadelphous after completion of the Sale Agreement.

Retained Loan Cap means \$5,729,091.

Sale Agreement means the Tripartite Deed of Sale and Cooperation dated 4 August 2016 between the Company, Monadelphous and XEPT.

Secured Money has the meaning given to that term in section 2.2 of the Explanatory Statement.

Secured Party has the meaning given to that term in section 2.2 of the Explanatory Statement.

Security has the meaning given to that term in section 2.1 of the Explanatory Statement.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a registered holder of a Share.

Transaction has the meaning given to that term in section 1.9 of the Explanatory Statement.

Waiver has the meaning given to that term in section 1.2 of the Explanatory Statement.

WST means Western Standard Time as observed in Perth, Western Australia.

XEPT means Xiaoqing Environmental Protection Technology Co. Ltd.

SCHEDULE 1

IDENTITY OF ASSOCIATES OF MONADELPHOUS GROUP LIMITED

Monadelphous Engineering Associates Pty Ltd

Monadelphous Engineering Pty Ltd

Monadelphous Properties Pty Ltd

Monadelphous Workforce Pty Ltd

Genco Pty Ltd

Monadelphous Electrical & Instrumentation Pty Ltd

Monadelphous PNG Ltd

Monadelphous Holdings Pty Ltd

Moway International Limited

SinoStruct Pty Ltd

Moway AustAsia Steel Structures Trading (Beijing)

Company Limited

Monadelphous Group Limited Employee Share Trust

Monadelphous KT Pty Ltd

Monadelphous Energy Services Pty Ltd

Monadelphous Singapore Pte Ltd

Monadelphous Mongolia LLC

M Workforce Pty Ltd

M&ISS Pty Ltd

M Maintenance Services Pty Ltd

Monadelphous Engineering NZ Pty Ltd

Monadelphous Inc.

Monadelphous Marcellus LLC

MGJV Pty Ltd

MKT Pipelines Limited

Evo Access Pty Ltd

ANNEXURE A – INDEPENDENT EXPERT’S REPORT

The Independent Expert, Stanton International Securities Pty Ltd, has been requested to provide an opinion on the fairness and reasonableness to the non-associated shareholders of AnaeCo on the proposals whereby AnaeCo shareholders may grant approval of the charge over the company’s assets in favour of Monadelphous Group Limited, (Resolution 1), as well as potentially issuing up to 4,151,515,217 Debt Conversion Shares to Monadelphous Group Limited (Resolution 2), and issuing up to 8,333,333,333 Debt Conversion Shares to Xiaoqing Environmental Protection Technology Co Ltd (Resolution 3).

After taking into account the factors noted in the report and the comments made in the Explanatory Statement, the Independent Expert has concluded that the proposals the subject of Resolutions 1, 2 and 3 outlined in the Notice of Meeting are fair and reasonable to the non-associated Shareholders of the Company as at the date of the report.

The opinions expresses must be read in conjunction with the more detailed analysis and comments made in the report.

PROXY FORM

ANAECO LIMITED
ACN 087 244 228

GENERAL MEETING

I/We

of:

being a Shareholder entitled to attend and vote at the Meeting, hereby appoint:

Name:

OR: the Chair of the Meeting as my/our proxy.

or failing the person so named or, if no person is named, the Chair, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit, at the Meeting to be held at 3 Turner Avenue, Bentley, Western Australia, on 17 October 2016 at 10:00am (WST), and at any adjournment thereof.

AUTHORITY FOR CHAIR TO VOTE UNDIRECTED PROXIES ON REMUNERATION RELATED RESOLUTIONS

CHAIR'S VOTING INTENTION IN RELATION TO UNDIRECTED PROXIES

The Chair intends to vote undirected proxies in favour of all Resolutions. In exceptional circumstances the Chair may change his/her voting intention on any Resolution. In the event this occurs an ASX announcement will be made immediately disclosing the reasons for the change.

Voting on business of the Meeting		FOR	AGAINST	ABSTAIN
Resolution 1	Approval for grant of security to Monadelphous Group Limited	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Approval of issue of Shares to Monadelphous Group Limited upon loan conversion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Approval of issue of Shares to Xiaoqing Environmental Protection Technology Co. Ltd upon loan conversion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is: _____ %

Signature of Shareholder(s):

Individual or Shareholder 1

Sole Director/Company Secretary

Shareholder 2

Director

Shareholder 3

Director/Company Secretary

Date: _____

Contact name: _____

Contact ph (daytime): _____

E-mail address: _____

Consent for contact by e-mail
in relation to this Proxy Form:

YES NO

Instructions for completing Proxy Form

1. **(Appointing a proxy):** A Shareholder entitled to attend and cast a vote at the Meeting is entitled to appoint a proxy to attend and vote on their behalf at the Meeting. If a Shareholder is entitled to cast 2 or more votes at the Meeting, the Shareholder may appoint a second proxy to attend and vote on their behalf at the Meeting. However, where both proxies attend the Meeting, voting may only be exercised on a poll. The appointment of a second proxy must be done on a separate copy of the Proxy Form. A Shareholder who appoints 2 proxies may specify the proportion or number of votes each proxy is appointed to exercise. If a Shareholder appoints 2 proxies and the appointments do not specify the proportion or number of the Shareholder's votes each proxy is appointed to exercise, each proxy may exercise one-half of the votes. Any fractions of votes resulting from the application of these principles will be disregarded. A duly appointed proxy need not be a Shareholder.
2. **(Direction to vote):** A Shareholder may direct a proxy how to vote by marking one of the boxes opposite each item of business. The direction may specify the proportion or number of votes that the proxy may exercise by writing the percentage or number of Shares next to the box marked for the relevant item of business. Where a box is not marked the proxy may vote as they choose subject to the relevant laws. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing instructions):**
 - **(Individual):** Where the holding is in one name, the Shareholder must sign.
 - **(Joint holding):** Where the holding is in more than one name, all of the Shareholders should sign.
 - **(Power of attorney):** If you have not already provided the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held. In addition, if a representative of a company is appointed pursuant to Section 250D of the Corporations Act to attend the Meeting, the documentation evidencing such appointment should be produced prior to admission to the Meeting. A form of a certificate evidencing the appointment may be obtained from the Company.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual Shareholders from attending the Meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Form and attends the Meeting in person, then the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - post to AnaeCo Limited, 3 Turner Avenue, Technology Park, BENTLEY, WA, AUSTRALIA, 6102;
 - facsimile to the Company on facsimile number +61 8 9361 4888; or
 - email to the Company at info@anaeco.com,

so that it is received not less than 48 hours prior to commencement of the Meeting.

Proxy Forms received later than this time will be invalid.

13 September 2016

The Directors
AnaeCo Limited
3 Turner Avenue
BENTLEY WA 6102

Summary of Conclusion of Opinions

In our opinion, taking into account the factors noted below and in section 9 of this report and the comments made in the ES to Shareholders accompanying the Notice, the proposals as noted in Resolutions 1, 2 and 3 whereby AnaeCo shareholders may grant approval of the charge over the company's assets in favour of Monadelphous Group Limited, as well as potentially issuing up to 4,151,515,217 Debt Conversion Shares to Monadelphous Group Limited, and issuing up to 8,333,333,333 Debt Conversion Shares to Xiaoqing Environmental Protection Technology Co Ltd are fair and reasonable to the non-associated shareholders of AnaeCo at the date of this report.

More specifically, taking into account the factors noted below and in section 9 of this report and the comments made in the ES to Shareholders accompanying the Notice:

- the proposal noted in Resolution 1 in relation to the granting of security over the assets of AnaeCo to MGL is fair and reasonable to the non-associated shareholders of AnaeCo at the date of this report;
- the proposal noted in Resolution 2 whereby AnaeCo may issue up to 4,151,515,217 Debt Conversion Shares to MGL is fair and reasonable to the non-associated shareholders of AnaeCo at the date of this report; and
- the proposal noted in Resolution 3 whereby AnaeCo may issue up to 8,333,333,333 Debt Conversion Shares XEPT is fair and reasonable to the non-associated shareholders of AnaeCo at the date of this report.

The pre-control value of an AnaeCo share was assessed to be Nil Cents per share (refer to paragraph 6.1.6), whilst the post transaction (diluted) minority value is assessed to be at 0.026 cents per AnaeCo share (refer to paragraph 7.6).

Dear Sirs,

RE: ANAECO LIMITED (ABN 36 087 244 228) ("ANAECO" OR "THE COMPANY") - MEETING OF SHAREHOLDERS TO CONSIDER RESOLUTIONS RELATING TO THE PROPOSALS TO APPROVE THE GRANT OF SECURITY OVER ASSETS TO MONADELPHOUS GROUP LIMITED AND ISSUE DEBT CONVERSION SHARES TO MONADELPHOUS GROUP LIMITED ("MGL") AND XIAOQING ENVIRONMENTAL PROTECTION TECHNOLOGY CO LTD ("XEPT") - MEETING PURSUANT TO SECTION 611 (ITEM 7) OF THE CORPORATIONS ACT 2001 ("TCA") AND/OR THE AUSTRALIAN SECURITIES EXCHANGE ("ASX") LISTING RULE 10.1

1. INTRODUCTION

- 1.1 We have been requested by the Directors of AnaeCo to prepare an Independent Expert's Report to determine the fairness and reasonableness of the transactions referred to in Resolutions 1, 2 and 3 as detailed in the Notice of Meeting ("Notice") and Explanatory Statement ("ES")

attached to the Notice to AnaeCo shareholders to be issued to shareholders in August 2016 for a meeting planned to be held on 4 October 2016.

The AnaeCo directors have requested Stantons International Securities to prepare an Independent Expert's Report to assist the shareholders in determining how to vote on Resolutions 1, 2 and 3 as outlined in the Notice and the ES.

Resolution 1 is for approval for the purpose of ASX Listing Rule 10.1 to permit AnaeCo Limited to grant security over all of its assets and undertakings in favour of MGL.

Resolution 2 seeks shareholder approval for the proposed issue to MGL of 4,151,515,217 shares at 0.138 cents each to convert the loan amount of \$5,729,091 to equity.

Resolution 3 seeks shareholder approval for the proposed issue to XEPT of 8,333,333,333 shares at 0.138 cents each to convert the loan amount of \$11,500,000 to equity.

1.2 The Company entered into various loan agreements with MGL. The history of the agreements encompassed the following:

- An initial loan agreement dated 25 September 2012 with MGL providing a loan facility of \$2,000,000 to the Company, with interest accruing at 12% per annum potentially convertible into ordinary shares in the Company at the election of MGL ("Initial Loan Agreement"). The conversion of the loan amount and associated interest would be convertible at either the 10 day volume weighted average price ("VWAP") of shares in AnaeCo at the expiry date of the agreement (30 June 2013) or at the issue price of the most recent rights issue or capital raising undertaken by the Company (subject to shareholder approval). The loan is secured by a security interest over all of the Company's personal property and a fixed charge over all of the Company's other property in favour of MGL;
- A further advancement of \$650,000 in December 2012, which has subsequently been repaid;
- A further loan supplement of \$1,000,000 in December 2014 under the same terms as the Initial Loan Agreement; and
- A further supplement of \$1,000,000 in February 2015.

Accordingly, the amended loan amount as per the 6 February 2015 agreement totalled \$4,000,000 plus interest accruing at 12 % per annum (the "Amended Loan").

On 26 May 2015, the Company agreed, in addition to the Amended Loan, to a supplemental loan agreement with MGL which included a further uncommitted loan term facility of \$3,600,000 accruing interest at 12% per annum. This supplemental loan agreement introduced a third alternative for determining a conversion price, being a price per share to be determined and agreed to by both MGL and the Company.

Three term sheets were signed in 2015 as follows ("Term Sheets"):

- A term sheet was signed on 3 June 2015, for an additional uncommitted facility of up to \$2,000,000;
- A further term sheet was signed on 7 August 2015 providing an additional \$500,000 facility to the Company; and
- Another term sheet was also signed on 16 October 2015, providing an additional facility of up to \$3,500,000.

Together, the Amended Loan and the Supplemental Loan Agreements, and Term Sheets, including associated interest payable, together can be converted into shares and the total amount outstanding is \$16,544,823 at 4 August 2016 (being the Amended Loan, Supplemental Loan Agreement, Term Sheets and Interest – together the “Loan” or “Debt Conversion Amount”). Under the Loan Agreement Amendment and Restatement Deed, dated 4 August 2016, the expiry date of the facility and therefore the repayment date was extended to the earlier of Completion and the date on which the Tripartite Deed terminates or is terminated (“Loan Restatement”). Completion means the issue of shares to XEPT and MGL once AnaeCo shareholder approval has been obtained and XEPT pays the purchase price for the loan to MGL.

Since the date of the initial loan agreement, MGL has advanced to the Company a net total of \$16,544,823 up to 4 August 2016 (net of repayments and including interest outstanding to 4 August 2016).

It is likely that the total amount advanced by MGL to the Company, including interest, will amount to approximately \$28,526,261 prior to completion. The underlying MGL loan, should Resolutions in the general meeting be approved by shareholders, will be partly written-off under the tripartite agreement to arrive at a net loan amount of \$17,229,091 that is to be converted into shares (refer to 1.3 below).

- 1.3 Under the terms of a tripartite agreement between the Company, MGL and XEPT (hereinafter called the “Sale Agreement”), MGL will convert the Loan up to a maximum of \$5,729,091 into 4,151,515,217 ordinary shares of AnaeCo and XEPT will convert the Purchased Loan of \$11,500,000 into 8,333,333,333 ordinary shares in AnaeCo.

Under the terms of the Sale Agreement:

- XEPT will purchase from MGL a portion of the Loan for \$11,500,000 (The Purchased Loan Amount);
- The Retained Loan Amount is defined as all outstanding Loan Amounts that exceed the sum of \$11,500,000 and all right, title, interest and obligation under the Loan that relates to such Loan Amounts (“Retained Loan Amount”);
- the Retained Loan Cap is defined as the amount totalling \$5,729,091 (“Retained Loan Cap”);
- At Completion the Company and MGL will ensure that the Company has a Minimum Cash Balance of \$1,500,000 (“Minimum Cash Balance”) after accounting for any current or non-current liabilities;
- At Completion the Company receives from MGL a further \$2,200,000 in relation to the Research and Development Claim for the 2014/2015 financial year received in November 2015 and already paid to MGL as a loan repayment; and
- Any cash received in relation to the Research and Development Claim for the 2015/2016 financial year is to be shared between MGL and the Company (for precise terms of how the refund of the 2015/2016 Research and Development Claim is to be applied, refer below).

Upon the receipt of the Purchase Price (\$11,500,000) from XEPT after AnaeCo shareholder approval of the Resolutions:

- MGL will be deemed to have given a conversion notice for the amount of the Retained Loan up to an amount that cannot exceed the Retained Loan Cap at Completion (and therefore MGL will forgive the amount exceeding the Retained Loan Cap of \$5,729,091) (“Retained Loan Amount Forgiveness”), and the Company must issue to MGL shares in the Company such that when aggregated with MGL’s existing shareholding in the Company will not exceed of 30.0% of the issued capital in the Company on a fully diluted basis (if the entire Purchased Loan and the Retained Loan up to the Retained Loan Cap are converted) and apply for quotation of these shares on the ASX as well as issuing a cleansing notice under TCA; and
- XEPT will be deemed to have given a conversion notice for the Purchased Loan Amount (\$11,500,000), and the Company will issue to XEPT ordinary shares in the Company equivalent to 55.0% of the expanded ordinary share capital in the Company (and on the same day apply for quotation on the ASX and issue a cleansing notice in under TCA).

In consideration for the Loan Amount Forgiveness, after Completion, the Company must use all reasonable endeavours to submit a Research and Development Claim for the 2015/2016 year, and if a cash refund is received MGL will receive 85% of the first \$4,000,000 refunded and 70% of the amount by which the refund exceeds \$4,000,000 (“2015/16 R&D Claim”).

The conditions precedent to Completion include the signature of the Sale Agreement and Loan Restatement, obtaining ASX and statutory/regulatory approvals including obtaining shareholder approval to enable XEPT to convert the Purchased Loan Amount amounting to \$11,500,000 into 55.0% of the fully diluted issued capital in AnaeCo; the Company obtaining shareholder approval to enable MGL to convert the Retained Loan Amount (up to a maximum of \$5,729,091) into ordinary shares in AnaeCo which would mean MGL holding 30.0% of the expanded issued Capital of AnaeCo; XEPT obtaining regulatory approvals relating to its proposed investment into AnaeCo; AnaeCo obtaining shareholder approval under Resolution 1 (refer to paragraph 1.9); and MGL confirming it has received the Purchase Price in its account pending the Completion.

- 1.4 In summary, if the Sale Agreement and Loan Restatement is signed and all shares are issued as noted above, AnaeCo will convert Debt of \$17,229,091 (at 4 August 2016 the total amount outstanding amounts to \$16,544,823) to equity, with shares issued to MGL and XEPT (refer to 1.6).
- 1.5 The Directors of AnaeCo are Shaun Scott (“Scott”), David Lymburn (“Lymburn”) and Les Capelli (“Capelli”).
- 1.6 For the purposes of this report we have rounded all shareholdings to 1 decimal place to be consistent with the Notice.

Currently, the shareholding interest of MGL is 390,142,118 shares that represent a 14.6% shareholding interest in AnaeCo. It is proposed that up to a maximum of 4,151,515,217 Debt Conversion Shares are to be issued to MGL as noted in Resolution 2 of the Notice. If this occurs, MGL would own 4,541,657,335 shares in AnaeCo that would represent 30.0% of the expanded issued capital of AnaeCo.

Should Resolution 3 be approved the Company will issue 8,333,333,333 shares to XEPT, thus giving XEPT 55.0% of the expanded ordinary share capital of AnaeCo.

XEPT and MGL would hold 55.0% and 30.0% respectively, which is individually in excess of 20% of the expanded ordinary issued capital of the Company.

- 1.7 Under Paragraph 606 of the Corporations Act 2001 (“TCA”), a person must not acquire a relevant interest in issued voting shares in a company if because of the transaction, that persons’ or someone else’s voting power in the company increases:
- (a) from 20% or below to more than 20%; or
 - (b) from a starting point that is above 20% and below 90%.

Under Section 611 (Item 7) of TCA, Section 606 does not apply in relation to any acquisition of shares in a company by resolution passed at a general meeting at which no votes were cast in favour of the resolution by the acquirer or the disposer or their respective associates. Due to the possible increase in shareholdings of MGL and XEPT as noted above an independent expert is required to report on the fairness and reasonableness of the issue of Debt Conversion Shares in AnaeCo to MGL and XEPT.

- 1.8 Therefore a notice prepared in relation to a meeting of shareholders convened for the purposes of Section 611 (Item 7) of TCA must be accompanied by an Independent Expert's Report stating whether the issue of ordinary shares to MGL and XEPT is fair and reasonable to the shareholders of AnaeCo not associated with MGL or XEPT respectively. Under ASIC Regulatory Guideline 111 “Contents of Expert Reports” an Independent Expert’s Report is required to report on the fairness and reasonableness of the transaction pursuant to Resolutions 2 and 3 as MGL and XEPT may increase their relevant shareholding interest in AnaeCo as noted above.

The AnaeCo directors have requested Stantons International Securities to prepare an Independent Expert’s Report to assist the shareholders in determining how to vote on Resolutions 1, 2 and 3 as outlined in the Notice and the ES.

Resolution 1 is for approval for the purpose of ASX Listing Rule 10.1 to permit AnaeCo Limited to grant security over all of its assets and undertakings in favour of MGL.

Resolution 2 seeks shareholder approval for the proposed issue to MGL of 4,151,515,217 shares at 0.138 cents each to convert the loan amount of \$5,729,091 to equity.

Resolution 3 seeks shareholder approval for the proposed issue to XEPT of 8,333,333,333 shares at 0.138 cents each to convert the loan amount of \$11,500,000 to equity.

- 1.9 ASX Listing Rule 10.1 provides that an entity must not acquire a substantial asset from, or dispose of a substantial asset to, a substantial holder. For the purposes of ASX Listing Rule 10.1 a related party is defined as a person owning 10% or more of the issued ordinary shares of the entity.

When the Initial Loan Agreement was entered into between the Company and MGL, MGL owned less than 10% of the ordinary shares. Since then MGL has acquired more shares and now owns 14.6%. Accordingly MGL is a substantial holder for the purposes of ASX Listing Rule 10.1.

The granting of a charge to a substantial holder is classified as a deemed disposal of an asset. Accordingly, the Company is seeking shareholder approval (Resolution 1) for the purpose of ASX Listing Rule 10.1. Shareholders should note that the Company does not intend to actually dispose of any assets to MGL. Approval is required under ASX Listing Rule 10.1 to cater for the circumstance where MGL may be required to enforce the proposed Charge.

1.10 ASX Listing Rule 10.1 provides that shareholder approval sought for the purpose of ASX Listing Rule 10.1 must include a report on the proposed disposal from an independent expert. Stantons International Securities has been requested to provide an opinion on the fairness and reasonableness to the non associated shareholders of AnaeCo on the proposal under Resolution 1 relating to the charge and possible disposal of assets (“AnaeCo Assets”) of AnaeCo.

1.11 Apart from this introduction, the report considers the following:

- Summary of opinions
- Implications of the proposals
- Future direction of AnaeCo
- Basis of valuation of AnaeCo shares
- Premium for control
- Fairness and Reasonableness of the Proposal with MGL
- Conclusion on Fairness of the Proposals
- Reasonableness of the Proposal with MGL
- Conclusion as to Reasonableness of the Proposals
- Shareholder decision
- Sources of information
- Appendix A and our Financial Services Guide

2. SUMMARY OF OPINIONS

2.1 In determining the fairness and reasonableness of the transactions and proposals pursuant to Resolutions 1, 2 and 3 (the proposed granting of a security, the issue of Debt Conversion Shares to MGL and XEPT upon loan conversion), we have had regard for the definitions set out by the Australian Securities and Investments Commission (“ASIC”) in its Regulatory Guide 111. Regulatory Guide 111 states that an opinion as to whether an offer is fair and reasonable, not fair but reasonable or not fair and not reasonable shall entail a comparison between the offer price and the value that may be attributed to the securities under offer (fairness) and an examination to determine whether there is justification for the offer price on objective grounds after reference to that value (reasonableness).

The concept of “fairness” is taken to be the value of the offer price, or the consideration, being equal to or greater than the value of the securities in the above mentioned offer. Furthermore, this comparison should be made assuming 100% ownership of the “target” and irrespective of whether the consideration is scrip or cash.

2.2 An offer is “reasonable” if it is fair. An offer may also be reasonable, if despite not being “fair”, where there are sufficient grounds for security holders to accept the offer in the absence of any higher bid before the close of the offer. Regulatory Guide 111 also states that in all cases, where an acquisition of shares by way of an allotment is to be approved by shareholders pursuant to Section 611 (Item 7) of TCA, a report by an independent expert stating whether or not the proposals pursuant to Resolution 1, 2 and 3 are fair and reasonable, having regard to the interests of shareholders other than the proposed allottees (in this case, MGL and XEPT) and whether a premium for potential control is being paid by the allottees, will be required.

In relation to Resolutions 1, 2 and 3, we will consider whether the transactions with MGL/XEPT are “fair” by comparing:

- (a) the fair market value of an AnaeCo share pre-transaction on a control basis; versus
- (b) the fair market value of an AnaeCo share post-transaction on a minority basis, taking into account the value of the debts converted (\$17,229,091) and the associated dilution resulting from the issue of new shares via Debt Conversion.

2.3 An issuance of shares by a company otherwise prohibited under s606 may be approved under item 7 of s611 and the effect on AnaeCo's shareholding is comparable to a takeover bid. Examples of such issues approved under item 7 of s611 that are comparable to takeover bids include:

- (a) issuance of securities to the other parties, as a consequence, the vendor acquires over 20% of the company incorporating the merged businesses. The vendor could have achieved the same or a similar outcome by launching a scrip takeover for the company; and
- (b) a company issues securities in exchange for cash and, as a consequence, the allottee acquires over 20% of the company. The allottee could have achieved the same or a similar outcome by using a cash-rich entity to make a scrip takeover bid for the company.

2.4 Accordingly, our report relating to Resolutions 2 and 3 is concerned firstly with the fairness and reasonableness of the proposals from the point of view of the existing non associated shareholders of AnaeCo, and secondly (in relation to Resolution 2 and 3) whether the price payable for the potential for MGL (and in the case of Resolution 3, XEPT) interest(s) to improve (increase) their shareholding interest in the Company, includes a premium for increased control.

2.5 **In our opinion, taking into account the factors noted below and in section 9 of this report and the comments made in the ES to Shareholders accompanying the Notice:**

- **the proposal noted in Resolution 1 in relation to the granting of security over the assets of AnaeCo to MGL is fair and reasonable to the non-associated shareholders of AnaeCo at the date of this report;**
- **the proposal noted in Resolution 2 whereby AnaeCo may issue up to 4,151,515,217 Debt Conversion Shares to MGL is fair and reasonable to the non-associated shareholders of AnaeCo at the date of this report; and**
- **the proposal noted in Resolution 3 whereby AnaeCo may issue up to 8,333,333,333 Debt Conversion Shares XEPT is fair and reasonable to the non-associated shareholders of AnaeCo at the date of this report.**

As outlined elsewhere in the report, the pre-control value of an AnaeCo share was assessed to be Nil Cents per share (refer to paragraph 6.1.6), whilst the post transaction (diluted) minority value is assessed to be at 0.026 cents per AnaeCo share (refer to paragraph 7.6).

2.6 Notwithstanding that the AnaeCo share price (closing price of 0.3 cents) as at 12 September 2016, last sale to the day before the drafting of this report) each shareholder needs to examine the share price of AnaeCo and market conditions at the time of exercise of vote to ascertain the impact, if any, on Resolutions 2 and 3 involving the issue of shares in AnaeCo at a deemed price of 0.138 cents each. The opinions expressed above must be read in conjunction with the more detailed analysis and comments made in this report.

3. IMPLICATIONS OF THE PROPOSALS WITH THE INTERESTS OF MGL/XEPT

3.1 As at 9 September 2016, there were 2,672,798,568 fully paid ordinary shares on issue in AnaeCo (of which 2,500,000 shares are subject to voluntary escrow). The top 5 significant fully paid shareholders as at close of business on 3 August 2016 are disclosed as:

<u>Name of Shareholder</u>	<u>No. of Shares</u>	<u>% Interest</u>
Monadelphous Group Limited	390,142,118	14.6
Thirty-Fifth Celebration Limited	114,624,697	4.3
UBS Nominees Limited	104,910,000	3.9
Lippo Securities Limited	78,159,247	2.9
Flourish Holdings Pty Limited	56,818,332	2.1
	<hr/>	
	744,654,394	27.8
	<hr/>	

3.2 The top twenty fully paid shareholders as at 3 August 2016 own approximately 40.4% of the issued capital.

3.3 The possible changes to the number of ordinary shares on issue may be as follows:

	<u>Number on issue</u>
On issue as at 9 August 2016	2,672,798,568
Issue of Debt Conversion Shares	<u>12,484,848,550</u>
Potential ordinary shares on issue before the issue of any further shares	<u>15,157,647,118</u>

The potential holding by MGL in AnaeCo would rise by 4,151,515,217 shares should Resolution 2 be approved from 390,142,118 shares as at 4 August 2016 to a total of 4,541,657,335 shares, representing 30.0% of the expanded share capital of AnaeCo, and should Resolution 3 be approved, XEPT would hold 8,333,333,333 shares (or 55.0% of the expanded share capital) of AnaeCo.

3.4 If all Debt Conversion Shares are issued, the Company's external debt will reduce by up to a maximum of \$17,229,091 (or \$16,544,823 based on the debt owing as at 4 August 2016), and thus the debt owing to MGL will be totally eliminated.

3.5 There are no listed or unlisted share options on issue as at 4 August 2016.

3.6 In relation to the Board of Directors control, the current directors are Messrs Shaun Scott, David Lymburn and Les Capelli. The Board of Directors may change in the future and in particular may change if control of AnaeCo passes to MGL and XEPT.

3.7 AnaeCo has generated a patented technology designed to achieve market leading resource recovery and landfill diversion rates by maximising the recycling of organic material and recyclate contained in Municipal Solid Waste ("MSW"). It is anticipated that the Company will attempt to raise further working capital in order to commercialise the patented technology.

3.8 Resolution 1 seeks Shareholder approval for the grant by the Company of the security interest over all of its assets and undertakings (the Security), in favour of MGL to secure repayment of the Loans to MGL pursuant to the Loan Agreements. The Company would need to seek new equity capital to repay the MGL Loans or risk losing its assets to MGL via MGL exercising its charges and security. The Facility is secured as noted above, but is to be ratified by shareholders of the Company.

Should the Company not be able to meet their debts to MGL, MGL has the right to take these assets, and recover any amounts owed under the MGL Facility that will total at least the Loan balance outstanding. It is worth noting that the Company has granted to MGL a PPSA Security Interest over all PPSA Personal Property and a fixed charge over all Other Property and the

Company also assigns all its present and after-acquired interests in ‘negotiable instruments’ and transfers all its present and after-acquired interests in ‘accounts’ and ‘chattel paper’.

4. FUTURE DIRECTION OF ANAECO

4.1 We have been advised by management of AnaeCo that:

- the immediate short-term plan is, inter-alia, to issue the Debt Conversion Shares, to eliminate the debt owing to MGL;
- no dividend policy has been set and is not proposed to be set until such time as the Company is profitable and has a positive cash flow; and
- The Board of Directors may change in the future pending consummation of the Resolutions 2 and 3 (refer paragraph 3.6 above).

4.2 Further details are in announcements made by AnaeCo to the ASX to the date of this report and shareholders are encouraged to read recent reports on the AnaeCo business before determining whether to vote for or against Resolutions 1, 2 and 3 in the Notice.

5. BASIS OF TECHNICAL VALUATION OF SHARES IN ANAECO

5.1 In considering the proposal as outlined in Resolution 2, in arriving at our conclusion on fairness, we considered whether the transactions with MGL/XEPT are “fair” by comparing:

- (a) the fair market value of an AnaeCo share pre-transaction on a control basis; versus
- (b) the fair market value of an AnaeCo share post-transaction on a minority basis, taking into account the value of the debts converted (\$17,229,091) and the associated dilution resulting from the issue of new shares via Debt Conversion.

5.1.2 Accordingly, we have sought to determine a theoretical value that could reasonably be placed on AnaeCo shares for the purposes of this report.

5.1.3 The valuation methodologies we have considered in determining the current technical value of an AnaeCo share are:

- Capitalised maintainable earnings/discounted cash flow;
- Takeover bid - the price which an alternative acquirer might be willing to offer;
- Adjusted net asset backing and windup value; and
- The market value price of AnaeCo shares.

5.2 Capitalised Maintainable Earnings / Discounted Cash Flows

5.2.1 AnaeCo currently does not have a reliable cash flow or profit history from its business that attempts to maximise landfill diversion by converting MSW into recyclables and renewable energy, therefore this methodology is not entirely appropriate. An external technical valuation of this technology of AnaeCo has not been undertaken as to date losses have been incurred. The AnaeCo Group to 31 March 2016 has unaudited accumulated losses of over \$81.0 million and the losses after tax (research and development rebates) for the years ended 30 June 2015, 30 June 2014 and 30 June 2013 were approximately \$7.8 million, \$5.6 million and \$4.0 million respectively.

5.3 Takeover Bid

5.3.1 It is possible that a potential bidder for AnaeCo could purchase all or part of the existing shares, however no certainty can be attached to this occurrence. To our knowledge, there are no current bids in the market place and the directors of AnaeCo have formed the view that it is unlikely that any party will commit to any takeover bids for AnaeCo in the immediate future.

5.4 Net Asset Backing and Wind-Up Value

5.4.1 A summary of the unaudited consolidated statement of financial position of AnaeCo as at 30 June 2016 is summarised below. Please note that the differences in the balances noted in the unaudited pro-forma below and those of the audited financial statements are considered to be immaterial to the valuation calculations noted thereafter. Accordingly, along with a pro-forma consolidated statement of financial position as at 30 June 2016 after adjusting for:

- estimated losses of \$1.260 million incurred from 1 July 2016 to 30 November 2016;
- a R&D Tax credit of approximately \$5.626 million has been recorded as a receivable, and the corresponding amount payable to MGL (\$4.538 million) (refer section 1.3 for details of the method for allocation);
- additional loan draw-downs from MGL amounting to \$4.315 million post 30 June 2016 to ensure that the Minimum Cash Balance is achieved;
- additional loan draw-downs from MGL totalling \$8.129 million and a creditor payment to MGL of \$5.428 million
- transaction costs of approximately \$771,000; and
- conversion of debt to equity (up to \$17.229 million after adjustment for loan forgiveness of \$10.243 million)

The adjustments alluded to above include those to be considered the most applicable in the circumstances to show what AnaeCo's statement of financial position may look like post consummation of Resolutions 1, 2 and 3.

	Unaudited 30 June 2016 \$000's	Unaudited 30 June 2016 (as adjusted) \$000's
Current assets		
Cash at bank	611	4,412
R& D Tax Offset – 2015/16	5,626	5,626
Trade and other receivables	582	22
	6,819	10,060
Non-current assets		
Property, plant and equipment	9	9
Intangible assets	2,949	2,949
	2,958	2,958
Total assets	9,777	13,018
Current liabilities		
Trade and other payables	5,794	366
Provisions	533	533
Interest bearing liabilities	16,156	-
Payable to MGL arising from receipt of 2015/16 R&D refund	-	4,538
	22,483	5,437

	Unaudited 30 June 2016 \$000's	Unaudited 30 June 2016 (as adjusted) \$000's
Non-Current liabilities		
Borrowings	-	-
Total liabilities	22,483	5,437
Net Assets (Liabilities)	(12,706)	7,581
Equity		
Issued Capital	68,351	85,066
Reserves	1,216	1,216
Accumulated Losses	(82,273)	(78,701)
Total Equity	(12,706)	7,581

5.4.2 Based on the unadjusted book values at 30 June 2016 this equates to a value per issued ordinary share (2,672,798,568 shares on issue) of approximately nil cents (ignoring the value, if any, of non-booked tax benefits).

5.4.3 To 30 June 2016, the Company amortised its technology/goodwill interests (AnaeCo™ Technology) to a net value of \$2,949,000. Management has advised that the AnaeCo™ Technology is currently not for sale and a sale price to an independent third party cannot be ascertained at this point of time. In view of the substantial losses of the company and the lack of long term cash flow forecasts, valuing the AnaeCo™ Technology is not able to be determined using a Discounted Cash Flow method to determine or to underpin the value as stated above. Accordingly, we have decided to accept management's best estimates which is the carrying value of the intangible assets per the statement of financial position financial and have decided not to engage a technical expert to value this technology.

We have accrued the potential impact of the 2015/16 R&D Claim Payable, based on Management's best estimates but are unable to ascertain the amount of research and development refund (if any at this point in time) and thus cannot attribute an increment to the sale value – if any should the claim that is awarded differ from that which is accrued. There are no long term cash flow forecasts to ascribe a fair value to the technology and thus we have accepted the book value for the purposes of this report.

However, it is noted that that the “market” over the past year or so has consistently valued the Company at a price (based on market capitalisation) greater than the net book assets of AnaeCo. It would appear that the investors (minorities) are ascribing a value to the technology of at least \$5,345,597 (at 0.2 cents per share pre announcement of the Debt Conversion proposals). However, we have not applied this “potential” value in ascribing a current value to an AnaeCo share, as the share trading in AnaeCo is shallow (not many trades undertaken). Losses to date have been substantial and despite patent protection, it may be difficult to sell the technology interests of AnaeCo to other willing parties other than XEPT.

5.4.4 Taking the unaudited unadjusted net liabilities of \$12,706,000 as noted above, the value per share in the Company is equivalent to approximately Nil cents per share.

Due to the unknown longer term value of the AnaeCo™ Technology, we have decided to use a fair value of an AnaeCo share for the purposes of this report at nil cents (but noting it could be higher).

5.5 Market Price of AnaeCo Shares

5.5.1 We set out below a summary of share prices of AnaeCo from 1 December 2015 to 4 August 2016 (the day before the announcement of the Debt Conversion proposals).

	High Sale Cents	Low Sale Cents	Last Sale Cents	Volumes Trade (000's)	No of days traded on ASX
December 2015	0.3	0.2	0.2	9,411	12
January 2016	0.3	0.2	0.2	25,666	10
February 2016	0.3	0.1	0.2	12,894	9
March 2016	0.3	0.1	0.2	15,990	11
April 2016	0.2	0.1	0.2	6,981	13
May 2016	0.2	0.1	0.1	9,214	22
June 2016	0.3	0.1	0.2	96,407	22
July 2016	0.25	0.1	0.2	24,187	22
August 2016 (to 4 th)	0.2	0.2	0.2	5,411	3

Trading in AnaeCo shares from 5 August 2016 (the day of the announcement of the Debt Conversion proposals) to the 12 September 2016, is as follows:

	High Sale Cents	Low Sale Cents	Last Sale Cents	Volumes Trade (000's)	No of days traded on ASX
August 2016 (from 5 th to 31 st)	0.5	0.2	0.3	219,492	15
September 2016 (to 12 th)	0.35	0.2	0.3	22,693	4

In the period 1 December 2015 to 4 August 2016, the Company, inter-alia made announcements with respect Appendix 4C's, the Half Year Report and Accounts (29 February 2016), a release about the completion of the WMRC Project Completion on (11 February 2016), answers to questions with respect to the financial performance of the Company and auditor's report thereon on 6 April 2016, two separate announcements regarding the Funding facilities (on the 6 April and 18 April 2016), a waiver from the ASX of Listing Rule 10.1 regarding the allowing of the Company to grant security over the Company's assets without the need for shareholder approval to MGL (27 February 2016) subject to certain conditions, and finally on 6 May 2016 an announcement about the WMRC Project Completion including the handover and demobilisation to Brockwaste on 29 April 2016. The Company had received a volume trading query from the ASX regarding the trading volume on 1 June 2016 (approximately 55.4 million shares traded on that day), for which the Company had responded that it was in compliance with continuous disclosure requirements.

The largest volume trades for the period from 1 December 2015 to 4 August 2016 included approximately 9.4 million shares traded on 19 January 2016, 4.9 million shares being traded on 28 January 2016 and as mentioned above, 55.4 million shares traded on 1 June 2016.

The trading post announcement of the Debt Conversion proposals (from 5 August 2016 up to and including 12 September 2016) ranged from 0.2 cents per share to a high of 0.5 cents per share (achieved on 15 August 2016). The share price in the period from 5 August 2016 to 12 September 2016 was generally around 0.3 cents to 0.4 cents per share. In that period the major announcements included the release of the Annual audited financial statements (released on 19 August 2016) as well as the ASX Listing Rule 4E audited final report for the year 30 June 2016 (23 August 2016).

Accordingly, the volumes of AnaeCo shares, post announcement of the Debt Conversion proposals, increased markedly for the remainder of August 2016, in comparison to the previous months. The last sale price of an AnaeCo share was 0.3 cents on 12 September 2016.

- 5.5.2 No independent valuations have been prepared on the technology interests of AnaeCo and we do not consider it necessary to obtain an independent valuation for the purposes of this report. We note that the market has been informed of all of the current projects entered into between AnaeCo and other parties. We also note it is not the present intention of the directors of AnaeCo to liquidate the Company and therefore any theoretical value based upon wind up value or even net book values (as adjusted), is just that, theoretical. The shareholders, existing and future, must acquire shares in AnaeCo based on the market perceptions of what the market considers an AnaeCo share to be worth.

The market has either generally valued the vast majority of junior/mid-size technology/manufacturing companies at significant discounts or premiums to appraised technical values and this has been the case for a number of years although we also note that whilst there is an orderly market for AnaeCo shares and the market is kept fully informed of the activities of the Company, the trading in AnaeCo is relatively thin. The market capitalisation of AnaeCo as at 12 September 2016 (based on a last sale price on 12 September 2016 of 0.3cents per share) was approximately \$8 million. AnaeCo's market capitalisation is greater than the adjusted net equity (liability) position as at 30 June 2016. In effect, the minority shareholders are ascribing some value to the potential to successfully commercialise the AnaeCo™ System and assume that some losses will be curtailed and the Company may become profitable in the future.

6. PREFERRED VALUATION METHOD FOR VALUING AN ANAECO SHARE

- 6.1.1 In assessing the fair value of AnaeCo and an AnaeCo share pre the Debt Conversion proposed, we have selected the net assets at fair market values on a going concern methodology as the preferred methodology as:

- AnaeCo does not currently generate sufficient revenues or profits and per the audited accounts has incurred significant losses in the financial years ended 30 June 2015, 2014 and 2013 (and per the unaudited and adjusted balances as at 30 June 2016 – refer to paragraph 5.4.1). Therefore the capitalisation of future maintainable earnings is not yet appropriate;
- Although AnaeCo has potential future net cash inflows, the Company still needs to raise significant cash funds for further development and commercialisation of the AnaeCo™ System and pay outstanding debts and therefore the Discounted Cash Flow methodology is not considered appropriate (but refer comments in paragraph 5.2.1 above); and
- Although the shares of AnaeCo are listed there is no “Deep Market” of share trading in the Company. We have however used share prices as a secondary market valuation methodology. The share prices to date may be affected by the losses to date and poor financial condition of the AnaeCo Group. Until these matters are fixed, the share price of an AnaeCo share may not be re-rated upwards.

- 6.1.2 As stated at paragraph 5.4. we have assessed the value of AnaeCo prior to the Debt Conversion on a net asset basis as adjusted and on a going concern basis as being Nil cents (with a possibility if market sentiment was taken into account of approximately 0.2 cents based upon the market capitalisation of AnaeCo using a last sale price of 0.2 cents per share as at 4 August 2016). We do note that the last sale price of an AnaeCo share as at 12 September 2016 is 0.3 cents per share.

- 6.1.3 We note that, the net asset value may not necessarily reflect fair values in the current economic circumstances of the Company. If funds can be raised, the AnaeCo™ System can be commercialised and the Company turns losses into profits, then arguably the fair value of an AnaeCo share may be in excess of the current fair book value and current market values.
- 6.1.4 It is noted that using ASX share prices (as a secondary valuation methodology) the fair market value of an AnaeCo share to a shareholder, pre the proposed Debt Conversions, lies mainly in the range of 0.1 cents and 0.3 cents (using sale prices on ASX between 1 December 2015 and 4 August 2016). Subsequent to the announcement of the Debt Conversions, the shares have traded at between 0.2 cents and 0.5 cents. The last sale on 12 September 2016 was at 0.3 cents.
- 6.1.5 Further capital raisings may be required in subsequent periods depending on future cash flows of the Company.

We have considered the pre-announcement (the announcement of 5 August 2016) ASX share price of an AnaeCo share that falls mainly in the range (on very low volumes) of 0.1 cents to 0.3 cents. As stated, the ASX share prices do not necessarily reflect fair values in the current economic circumstances of the Company but as the shares are freely tradable then the pre-announcement share prices could also be taken into account in determining the fairness of the proposals with the MGL/XEPT.

Notwithstanding the value of AnaeCo's Technology and associated patents, without cash the Company cannot continue to develop and commercialise the technology assets and meet its short term working capital requirements. The closing share price as at 4 August 2016 (last sale before the announcement of the Debt Conversion proposals was 0.2 cents on 4 August 2016) does not necessarily reflect fair value of the Company's shares. If AnaeCo can manage the working capital requirements over the next few years and the Company is able to obtain new commercially viable projects (the WMRC Project was a prototype project which ultimately has been completed in April 2016), then arguably the fair value of an AnaeCo share could be in excess of the 0.138 cent issue price of the Debt Conversion shares to be issued.

The share price in the future is unknown but it may be fair to say that if the continued development and positive commercialisation of the Company's technology assets are enhanced then it is likely that the share price would be higher than the share price over the past six months to 4 August 2016 (and share prices subsequent to 4 August 2016 and to the date of this report). The last sale price on 12 September 2016 was 0.3 cents.

The future ultimate value of an AnaeCo share will depend upon, inter alia:

- the future prospects of its AnaeCo™ System waste management solution;
- the state of Australian and overseas stock markets;
- the strength of the Board and management and/or who makes up the Board and management;
- general economic conditions;
- the ability of the Company to secure funding requirements and or partners for its development and marketing;
- the liquidity of shares in AnaeCo; and
- possible ventures and acquisitions entered into by AnaeCo.

- 6.1.6 We have put more of a weighting on the net asset backing method. In our view, for the purposes of ascribing a value to an AnaeCo share for the purposes of arriving at a conclusion on the fairness and reasonableness of the proposals under Resolutions 2 and 3, the current fair value of an AnaeCo share is Nil cents. It is noted that this value does not recognise market

sentiment that ascribes some value placed on the AnaeCo Technology by minority investors as noted above.

7. CALCULATION OF AN AMOUNT THAT AN INVESTOR IS WILLING TO PAY TO ACQUIRE CONTROL OF A COMPANY

7.1 Premium for control for the purposes of this report, has been defined as the difference between the price per share, which a buyer would be prepared to pay to obtain or improve a controlling interest in the Company and the price per share which the same person would be required to pay per share, which does not carry with it control or the ability to improve control of the Company.

7.2 Under TCA, control may be deemed to occur when a shareholder or group of associated shareholders control more than 20% of the issued capital. In this case XEPT will hold 55.0%, whilst MGL will have 30.0% of the expanded share capital of AnaeCo. Accordingly, we have addressed whether a premium for potential control will be paid.

In take-over offers, it is often the case that a premium for control falls in the normal range of 15% to 40% and it is often accepted that a 20% premium for control should be payable. The actual premium may be more or less. In this case taking into account share trades and the financial position of AnaeCo, we have considered a reasonable premium for increased control should be 20%.

Accordingly, we have addressed whether a premium for obtaining control will be paid.

7.3 Our preferred methodology is to value AnaeCo and an AnaeCo share on a technical net asset basis which assumes a 100% interest in the Company. Therefore no adjustment is considered necessary to the technical asset value determined under paragraph 5.4 as this already represents the fair value of the Company or a share in the Company on a pre Proposed Transactions (Pre Debt Conversion) control basis.

7.4 The 4 August 2016 market value of an AnaeCo share approximated 0.2 cent and it is noted that the shares in the three months to 4 August 2016 traded mainly in the 0.1 cent to 0.3 cent range, although it is noted that the net book asset backing per share is now disclosed at Nil cents per share. Therefore, noting ASX share prices, MGL and XEPT are considered to be not paying a premium for potential control (noting the MGL/XEPT potential shareholding post the Debt Conversion Share issue as described above) based on the ordinary share price of an AnaeCo share in the range of 0.1 cents to 0.3 cents. However, as noted above, using the share price of an AnaeCo share trading on ASX is not our preferred methodology.

7.5 We note that currently neither XEPT nor MGL has Board control of AnaeCo and following the approval of Resolutions 1 to 3, it is likely that changes will be made to the composition of the AnaeCo Board.

7.6 We set out below the comparison of the low, preferred and high values of an AnaeCo share compared to the issue price for the Debt Conversion Shares.

Pre-Transactions

	Para.	Low (cents)	Preferred (cents)	High (cents)
Estimated fair value of an AnaeCo Share	6.1.6	nil	nil	nil
Issue Price of the Shares (based on ASX prices)		<u>0.10</u>	<u>0.15</u>	<u>0.30</u>
Excess (Deficiency) between Issue Price and fair values		<u>0.10</u>	<u>0.15</u>	<u>0.30</u>

**Preferred Value
\$**

Net value of assets pre Debt Conversions (refer paragraph 5.4.1)	(12,706,000)
Net Value of Debt Conversions using June 2016 figures	17,229,091
Adjusted net assets post Debt Conversion (refer paragraph 5.4.1)	<u>4,523,091</u>
Number of shares on issue post Debt Conversion	15,157,647,119
Net asset value per share post Debt Conversion	0.0298 cents
Minority interest discount	16.67%
Minority value per share post Debt Conversion	0.026 cents
Increase/(Shortfall) in value to a Minority Shareholder post Debt Conversion	0.026 cents

- 7.7 In order to reflect the minority interest value we have applied a minority interest discount to the technical net asset value. The minority interest discount has been calculated as the inverse of the premium for increased control of 20% as discussed above.
- 7.8 As noted above the fair market value of an AnaeCo share **Post-Transaction on a minority basis**, taking into account up to the \$17,229,091 debt converted to equity and the associated dilution resulting from the issue of new shares under the Debt Conversion approximates 0.026 cents per post conversion share.
- 7.9 On a pre proposals control basis, the value of an AnaeCo share approximates nil cents. The Debt Conversion Shares are proposed to be issued at 0.138 cents per share. Based on the preferred pre-proposals value of nil cents per share, a premium for control is being paid by MGL and XEPT.

8 CONCLUSION AS TO FAIRNESS

8.1 In arriving at our conclusion on fairness, we considered whether the transactions with MGL/XEPT are “fair” by comparing:

- (a) the fair market value of an AnaeCo share pre-transaction on a control basis; versus
- (b) the fair market value of an AnaeCo share post-transaction on a minority basis, taking into account the value of the debts converted (\$17,229,091) and the associated dilution resulting from the issue of new shares via Debt Conversion.

8.2 The proposal to issue Debt Conversion Shares to MGL and XEPT is believed to be fair to AnaeCo’s non-associated shareholders if the value of the consideration offered (0.138 cents per share in relation to the value to extinguish Debt) is equal to or greater than the fair value of an AnaeCo share taking into account the comments in section 7 above.

8.3 As noted in paragraphs 8.6 and 8.8, the minority shareholders are better off post the Debt Conversions as compared with the fair market value of an AnaeCo share pre Debt Conversions on a control basis (but using share prices as traded on ASX, the minority shareholders would be worse off).

8.4 **In our opinion, taking into account the factors noted in this report, the proposals:**

-noted in Resolution 1 in relation to the granting of security over the assets of AnaeCo to MGL is fair to the non-associated shareholders of AnaeCo at the date of this report;

-noted in Resolution 2 whereby AnaeCo may issue up to 4,151,515,217 Debt Conversion Shares to MGL is fair to the non-associated shareholders of AnaeCo at the date of this report; and

-noted in Resolution 3 whereby AnaeCo may issue up to 8,333,333,333 Debt Conversion Shares XEPT is fair to the non-associated shareholders of AnaeCo at the date of this report.

The pre-control value of an AnaeCo share was assessed to be Nil Cents per share (refer to paragraph 6.1.6), whilst the post transaction (diluted) minority value is assessed to be at 0.026 cents per AnaeCo share (refer to paragraph 7.6).

It is noted that the volumes of trades in AnaeCo shares on ASX are not high and a Deep Market does not exist (the last sale price was 0.2 cents on 4 August 2016 - 0.1 cent to 0.3 cent pre the announcement of the Debt Conversion based on the 1 May 2016 to 4 August 2016 share prices as traded on ASX). The last sale price as at 12 September 2016 was 0.3 cents per share.

Using the pre announcement trading share prices, adjusted for a premium for control, the Debt Conversion would not be fair. However, our preferred methodology to value the shares in AnaeCo is to use the adjusted net asset backing methodology as noted elsewhere in this report.

9. REASONABLENESS OF THE PROPOSALS WITH MGL/XEPT

We set out below, some of the advantages, disadvantages and other factors pertaining to the proposals under Resolutions 1, 2 and 3 and the Debt Conversion generally.

9.1 If shareholders do not approve Resolution 2 and 3, the Debt Conversion Shares will not be issued and the Company would lose the benefit of being able to convert a liability of up to \$17,229,091, and thus remove this balance owing from the balance sheet. In order to repay this amount the Company would need to raise monies, and given the current economic

climate, it is quite difficult to raise monies, in particular an amount of \$17,229,091. The total debt is assumed to be satisfied by the issue of 12,484,848,550 Debt Conversion shares in total with 4,151,515,217 issued to MGL and 8,333,333,333 shares to XEPT. The ability to convert the debts owing to MGL and XEPT to shares would relieve the immediate need to raise cash, to alleviate cash flow concerns in the immediate future, and position the Company to fund its operations.

If shareholders do not approve Resolutions 2 and 3, then there is the strong possibility that the Company cannot continue in its present form and the Company may in the worst case scenario be forced to divest itself of some or all of its assets and may be forced into liquidation. AnaeCo urgently requires funds to allow the Company to continue its development and commercialisation of its AnaeCo™ System and meet current and future debts. Additionally funds are required to fund business development and corporate overheads.

The Company has been funded by the ability to obtain funds from MGL, with the most recent tranche being received in the past month. The Company has not raised monies from the market in the past year.

- 9.2 There is an incentive for MGL to ensure AnaeCo maintains operations, as MGL is likely to sell its debt to XEPT, who will upon Debt Conversion hold 55.0% (8,333,333,333 ordinary shares) of AnaeCo whilst MGL would hold a total of 30.0% (4,541,657,335 ordinary shares) of the expanded issued capital of AnaeCo. There is a huge incentive for MGL or XEPT to make AnaeCo a successful company and have the share price rise considerably. All shareholders would benefit from a rise in the share price.
- 9.3 The capital raising/debt conversion costs are estimated at \$514,000 (estimated cost of the Notice and shareholders meeting). That represents a capital raising fee of approximately 3% based on the total debt to be converted. The capital raising/debt conversion cost is at a favourable rate when compared to similar capital raisings where the commission rates can be approximately 5% to 7% of the capital raising plus the costs to hold the meeting of shareholders.
- 9.4 The number of fully paid ordinary shares on issue will rise by up to 12,484,848,550 on the issue of all of the Debt Conversion Shares to a total of 15,157,647,118 ordinary shares in AnaeCo (before any other share issues). In total this could represent an approximate 82.4% increase in the ordinary shares of the Company. This dilutes the shareholding of the existing non associated shareholders.
- 9.5 An influential potential increase in shareholding of the Company may be given to XEPT and MGL whose shareholding may increase up to 55.0% and 30.0% respectively, on the issue of the 12,484,848,550 Debt Conversion Shares. Having such investment may limit the opportunity for other parties to bid for all or part of the shares in AnaeCo in the future.

Other Factors

- 9.6 The future share price may exceed the 0.138 cent issue price of the Debt Conversion Shares proposed to be issued.
- 9.7 Should the Resolutions be approved, the Company may benefit from the industry experience, contacts and know-how of XEPT. XEPT has participated in several thousand projects involving municipal water treatment, industrial wastewater treatment, garbage transfer and recycling, sludge treatment and disposal and rural biogas. By bringing XEPT as a substantial shareholder, the Company can benefit from synergies, access to additional geographical markets and exposure from its potential substantial shareholders and the ability to market and develop the AnaeCo™ System Technology.

- 9.8 The Company post consummation of the transaction will be left with approximately \$3,700,000 in free cash.
- 9.9 It is uncertain what amount if any will be refunded as part of the 2015/16 R&D Claim. The Company under this agreement has no exposure to reimburse to MGL should a lower amount be recovered from the R&D Claim, (under the Sale Agreement). Naturally, should the claim rise, the Company will be proportionally liable to pay more to MGL in line with the percentage as stated in paragraph 1.3.
- 9.10 The Company would need to seek new equity capital to repay the MGL Loan or risk losing its assets to MGL via MGL exercising its charges and mortgages. The Facility is secured as noted above. Should the Company not be able to meet its debt to MGL, MGL has the right to take these assets, and recover any amounts owed under the Loan.
- 9.11 AnaeCo is potentially disposing of its core assets over which, a PPSA charge has already been registered (ratification of this charge is being sought from shareholders). Failure to satisfy the repayment requirements may allow MGL to gain the assets for a value which potentially is less than the actual net worth of the assets of AnaeCo. The independent Directors of AnaeCo consider that this is unlikely taking into consideration the stage of technology (although this cannot be assured or guaranteed). It is always possible that further share equity funds can be raised to pay out MGL if required but this may be difficult and may result in a heavily discounted share issue price if it was to occur.

10. CONCLUSION AS TO REASONABLENESS

10.1 In our opinion, taking into account the factors noted above and in section 7 of this report and the comments made in the ES to Shareholders accompanying the Notice, the proposals:

-noted in Resolution 1 in relation to the granting of security over the assets of AnaeCo to MGL are reasonable to the non-associated shareholders of AnaeCo at the date of this report;

-noted in Resolution 2 whereby AnaeCo may issue up to 4,151,515,217 Debt Conversion Shares to MGL are reasonable to the non-associated shareholders of AnaeCo at the date of this report; and

-noted in Resolution 3 whereby AnaeCo may issue up to 8,333,333,333 Debt Conversion Shares XEPT are reasonable to the non-associated shareholders of AnaeCo at the date of this report.

The pre-control value of an AnaeCo share was assessed to be Nil Cents per share (refer to paragraph 6.1.6), whilst the post transaction (diluted) minority value is assessed to be at 0.026 cents per AnaeCo share (refer to paragraph 7.6).

Notwithstanding that the AnaeCo share price (closing price of 0.3 cents) as at 12 September 2016 (being also the last sale price to the date of this report), each shareholder needs to examine the share price of AnaeCo and market conditions at the time of exercise of vote to ascertain the impact, if any, on Resolutions 1, 2 and 3.

11. SHAREHOLDER DECISION

- 11.1 Stantons International Securities has been engaged to prepare an independent expert's report setting out whether in its opinion the issue of Debt Conversion Shares to MGL and XEPT and the granting approval of a Security to MGL are fair and reasonable and state reasons for that opinion.

- 11.2 In any event, the decision whether to accept or reject Resolutions 1, 2 and 3 is a matter for individual shareholders based on each shareholder's views as to value, their expectations about future market conditions and their particular circumstances, including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. If in any doubt as to the action they should take in relation to the proposal under Resolutions 1, 2 and 3 shareholders should consult their own professional adviser.
- 11.3 Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in AnaeCo. This is an investment decision upon which Stantons International Securities does not offer an opinion and is independent on whether to accept the proposal under Resolutions 1, 2 and 3. Shareholders should consult their own professional adviser in this regard.

12. SOURCES OF INFORMATION

- 12.1 In making our assessment as to whether the proposals pursuant to Resolutions 1, 2 and 3 are fair and reasonable, we have reviewed relevant published available information and other unpublished information of the Company that is relevant to the current circumstances. In addition, we have held discussions with the management of AnaeCo about the present and future operations of AnaeCo. Statements and opinions contained in this report are given in good faith, but in the preparation of this report, we have relied in part on information provided by the directors and management of AnaeCo.
- 12.2 Information we have received, includes, but is not limited to:
- Drafts of Notice of General Meeting of Shareholders and ES of AnaeCo for the General Meeting of Shareholders the Company planned for September 2016;
 - Discussions with management of AnaeCo;
 - Top 20 shareholding details of AnaeCo as at 3 August 2016;
 - Share prices of AnaeCo since 1 December 2015 to 12 September 2016;
 - Annual Report of AnaeCo for the years ended 30 June 2015, 30 June 2014 and 30 June 2013 and half year accounts to 31 December 2015 lodged with ASX;
 - Announcements made by AnaeCo to the ASX from 1 July 2015 to 12 September 2016;
 - Information on AnaeCo as provided on the ASX web site and AnaeCo's web site;
 - Extracts of the AnaeCo general ledger
 - Cash flow forecasts of AnaeCo to June 2017 prepared by management;
 - The unaudited accounts of the AnaeCo Group for the period ended 30 June 2016 (unaudited);
 - A draft Loan Agreement Amendment and Restatement Deed between MGL and AnaeCo 2 August 2016;
 - Letter of extension provided by MGL to AnaeCo dated 28 June 2016; and
 - A Tripartite Deed of Sale and Cooperation – AnaeCo Loan between AnaeCo, MGL and XEPT.
- 12.3 Our report includes Appendix A and our Financial Services Guide attached to this report.

Yours faithfully

STANTONS INTERNATIONAL SECURITIES PTY LTD
(Trading as Stantons International Securities)



Martin Michalik - ACA
Director

AUTHOR INDEPENDENCE AND INDEMNITY

This annexure forms part of and should be read in conjunction with the report of Stantons International Securities Pty Ltd dated 13 September 2016, relating to the proposals to allow the issue of security to MGL and allow the issue of Debt Conversion Shares to MGL and XEPT as outlined in Resolutions 1, 2 and 3 in the Notice of Meeting to Shareholders and the Explanatory Statement proposed to be distributed to the AnaeCo shareholders in September 2016.

At the date of this report, Stantons International Securities Pty Ltd does not have any interest in the outcome of the proposals. There are no relationships with AnaeCo, MGL and XEPT other than acting as an independent expert for the purposes of this report (including the past two years). Before accepting the engagement Stantons International Securities Pty Ltd considered all independence issues and concluded that there were no independence issues in accepting the assignment to prepare the Independent Experts Report. There are no existing relationships between Stantons International Securities Pty Ltd and the parties participating in the transactions detailed in this report which would affect our ability to provide an independent opinion. The fee to be received for the preparation of this report is based on the time spent at normal professional rates plus out of pocket expenses and is estimated at a maximum of \$25,000. The fee is payable regardless of the outcome. With the exception of the fee, neither Stantons International Securities nor Martin Michalik or John Van Dieren have received, nor will, or may they receive, any pecuniary or other benefits, whether directly or indirectly, for or in connection with the making of this report.

Stantons International Securities Pty Ltd does not hold any securities in AnaeCo, MGL or XEPT. There are no pecuniary or other interests of Stantons International Securities Pty Ltd that could be reasonably argued as affecting its ability to give an unbiased and independent opinion in relation to the proposal. Stantons International Securities Pty Ltd and Messrs Martin Michalik and John Van Dieren have consented to the inclusion of this report in the form and context in which it is included as an annexure to the Notice.

QUALIFICATIONS

We advise Stantons International Securities Pty Ltd is the holder of an Australian Financial Services Licence (no 448697) under the Corporations Act 2001 relating to advice and reporting on mergers, takeovers and acquisitions that involve securities. The directors of Stantons International Audit and Consulting Pty Ltd are the directors of Stantons International Securities Pty Ltd. Stantons International Securities Pty Ltd has extensive experience in providing advice pertaining to mergers, acquisitions and strategic for both listed and unlisted companies and businesses.

Mr Martin Michalik, ACA and John Van Dieren, FCA the persons responsible for the preparation of this report, have extensive experience in the preparation of valuations for companies and in advising corporations on takeovers generally and in particular on the valuation and financial aspects thereof, including the fairness and reasonableness of the consideration offered.

The professionals employed in the research, analysis and evaluation leading to the formulation of opinions contained in this report, have qualifications and experience appropriate to the task they have performed.

DECLARATION

This report has been prepared at the request of the Directors of AnaeCo in order to assist them to assess the merits of allowing Security to be issued to MGL and allowing MGL to be issued Debt Conversion Shares at 0.138 cents each (and to XEPT) as outlined in Resolutions 1, 2 and 3 to the ES to which this report relates. This report has been prepared for the benefit of AnaeCo shareholders and does not provide a general expression of Stantons International Securities Pty Ltd's opinion as to the longer term value of AnaeCo, its subsidiaries, joint ventures and their assets. Stantons International Securities Pty Ltd does not imply, and it should not be construed, that it has carried out any form of audit on the accounting or other records of the AnaeCo Group or the joint ventures. Neither the whole nor any part of this report, nor any reference thereto may be included in or with or attached to any document, circular, resolution, letter or statement, without the prior written consent of Stantons International Securities Pty Ltd to the form and context in which it appears.

DUE CARE AND DILIGENCE

This report has been prepared by Stantons International Securities Pty Ltd with due care and diligence. The report is to assist shareholders in determining the fairness and reasonableness of the proposals set out in Resolutions 1, 2 and 3 to the Notice and each individual shareholder may make up their own opinion as to whether to vote for or against Resolutions 1, 2 and 3.

DECLARATION AND INDEMNITY

Recognising that Stantons International Securities Pty Ltd may rely on information provided by AnaeCo and its officers (save whether it would not be reasonable to rely on the information having regard to Stantons International Securities Pty Ltd experience and qualifications), AnaeCo has agreed:

- (a) To make no claim by it or its officers against Stantons International Securities Pty Ltd (and Stantons International Audit and Consulting Pty Ltd) to recover any loss or damage which AnaeCo may suffer as a result of reasonable reliance by Stantons International Securities Pty Ltd on the information provided by AnaeCo; and
- (b) To indemnify Stantons International Securities Pty Ltd (and Stantons International Audit and Consulting Pty Ltd) against any claim arising (wholly or in part) from AnaeCo or any of its officers providing Stantons International Securities Pty Ltd any false or misleading information or in the failure of AnaeCo or its officers in providing material information, except where the claim has arisen as a result of wilful misconduct or negligence by Stantons International Securities Pty Ltd.

A draft of this report was presented to AnaeCo directors for a review of factual information contained in the report. Comments received relating to factual matters were taken into account, however the valuation methodologies and conclusions did not alter.

**FINANCIAL SERVICES GUIDE
FOR STANTONS INTERNATIONAL SECURITIES PTY LTD
(Trading as Stantons International Securities)
Dated 13 September 2016**

1. Stantons International Securities ABN 42 128 908 289 and Financial Services Licence 448697 (“SIS” or “we” or “us” or “ours” as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

2. **Financial Services Guide**

In the above circumstances we are required to issue to you, as a retail client a Financial Services Guide (“FSG”). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our Australian Financial Services Licence, Licence No: 448697;
- remuneration that we and/or our staff and any associated receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

3. **Financial services we are licensed to provide**

We hold an Australian Financial Services Licence which authorises us to provide financial product advice in relation to:

- Securities (such as shares, options and notes)

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

4. **General Financial Product Advice**

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

5. **Benefits that we may receive**

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither SIS, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

6. **Remuneration or other benefits received by our employees**

SIS has no employees and Stantons International Audit and Consulting Pty Ltd charges a fee to SIS. All Stantons International Audit and Consulting Pty Ltd employees receive a salary. Stantons International Audit and Consulting Pty Ltd employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

7. **Referrals**

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

8. **Associations and relationships**

SIS is ultimately a wholly subsidiary of Stantons International Audit and Consulting Pty Ltd a professional advisory and accounting practice. Stantons International Audit and Consulting Pty Ltd trades as Stantons International that provides audit, corporate services, internal audit, probity, management consulting, accounting and IT audits.

From time to time, SIS and Stantons International Audit and Consulting Pty Ltd and/or their related entities may provide professional services, including audit, accounting and financial advisory services, to financial product issuers in the ordinary course of its business.

9. **Complaints resolution**

9.1 Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to:

The Complaints Officer
Stantons International Securities
Level 2
1 Walker Avenue
WEST PERTH WA 6005

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaints within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

9.2 Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service Limited (“FOSL”). FOSL is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOSL are available at the FOSL website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited
PO Box 3
MELBOURNE VIC 8007

Toll Free: 1300 78 08 08
Facsimile: (03) 9613 6399

10. Contact details

You may contact us using the details set out above.

Telephone 08 9481 3188
Fax 08 9321 1204
Email jvdieren@stantons.com.au