

30 November 2017

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## Address to 2017 Annual General Meeting

2017 has been a very challenging year for AnaeCo.

Our financial position is very weak as evidenced by the 2017 financial statements. Our auditors disclaimed forming an opinion as to whether the Company could continue as a going concern. In September 2017 ASX suspended the Company's shares from official quotation until we provide confirmation of settlement of the XEPT Transaction; and a pro forma financial statement evidencing the Company's financial condition upon completion of the XEPT Transaction, demonstrating compliance with Listing Rule 12.2 (financial condition). Upon receipt of this information ASX will assess whether to reinstate the Company's shares for official quotation.

The root cause of today's financial distress was planted several years ago in the Shenton Park DiCOM project where a myriad of design, engineering, commissioning and project issues led to significant cost over-runs and delays. The contractual structure for this project meant AnaeCo bore the greatest burden of these issues.

Fortunately we have relied on the financial support of our JV construction partner in the project, Monadelphous Group Limited (MND), both in funding completion of the project by April 2016, and also for general financial support since then.

Two years ago we stated that the Company required new financial and commercial resources and that securing these was our primary objective. After an exhaustive search for suitable organisations with complementary business activity and resources, followed by extensive due diligence and legal contract negotiations, an agreement was signed in August 2016 that provided for Xiaoqing Environmental Protection Technology Co. Ltd (XEPT) to become a 55% controlling shareholder in AnaeCo by purchasing then converting to equity part of the loan we owe to MND. MND would also convert part of the remaining loan to equity on the same terms as XEPT. The remainder of the loan would be written off and AnaeCo would be left debt free and with approximately \$3.7million in free working capital (cash). The agreement signed between XEPT, MND and AnaeCo was called the Tripartite Agreement. This recapitalisation and change of control transaction (the XEPT Transaction) was approved by AnaeCo shareholders in October 2016.

The XEPT Transaction was originally scheduled to complete by 31 December 2016. This did not occur because XEPT as Buyer was not in a position to complete and settle at that time. Since then there have been three extensions to the completion date, requested by XEPT and agreed to by MND and AnaeCo. The latest of these agreed extension dates passed on 30 September 2017.



Despite the latest agreed, extended date of completion having passed, the Tripartite Agreement remains on foot. For the agreement to terminate either the Buyer (XEPT) or the Seller (MND) would need to give written notice of termination to the other parties. Neither Buyer or Seller has given notice of termination and MND and XEPT continue discussions.

MND confirmed to us that they consider the Tripartite Agreement to be alive and also confirmed they will continue to provide financial support to AnaeCo for as long as it remains on foot. In the event that the Tripartite Agreement is terminated, MND will consider the most appropriate course of action available to it at that time.

When the Tripartite Agreement was signed in August 2016 it was seen by AnaeCo as the pathway to resolve historical financial issues and reposition the company for a fresh start. However, the subsequent delay of 15 months has had a significant impact on AnaeCo's business operations by perpetuating uncertainty regarding our financial standing and future prospects. Coupled with the aftermath of Shenton Park project completion in April 2016 where the project owner put the business into voluntary administration from October 2016 until its sale in August 2017, this has been a very challenging environment in which to conduct business development and marketing. As a result we have to date been unsuccessful in winning new business.

As previously stated, it is vital for AnaeCo's continued existence that the XEPT Transaction completes (or a similar alternative transaction is completed). If the transaction does not complete, AnaeCo has no other means of repaying the MND secured loan.

We are fully aware that MND has been working very hard to induce completion of the transaction. We have completed our obligations under the Tripartite Agreement, and whilst we continue to support MND as Seller at every opportunity, there is little we can do to facilitate the close of the transaction.

We have via various channels contacted XEPT requesting they confirm their intention to complete the transaction and to advise a firm timetable for completion and settlement. So far we have not received a response to our correspondence. The absence of a response means that today we are unable to provide shareholders with a satisfactory explanation as to whether the transaction is likely to complete or not.

This is a very frustrating and unsatisfactory situation, over which we have little or no capacity to control the outcome.

Shaun Scott  
Chairman

David Lymburn  
Managing Director

Les Capelli  
Non Executive Director