

4 December 2009

Dear Shareholder

I am writing in part to you to thank you for support through 2009.

Much has been achieved by your Company through its hard working staff, management and Board. The CETO wave energy technology has now progressed to be on the cusp of a commercial reality. Much development work has taken place through 2009 with multiple design advances both further simplifying design and improving performance. The simplification of the pump system and the proving of the energy relief system at around one third scale are both significant achievements.

The CETO wave energy technology is in the final stages of becoming 100% owned by Carnegie, presenting us with a greatly enlarged market to exploit the technology commercially but also removing the risk of a license being withdrawn and delivering a premium for control. We were also delighted to be the only successful recipient in the Western Australian Government's Low Emission Energy Demonstration program which resulted in Carnegie being awarded a \$12.5 million grant to part fund a 5 MW (MegaWatt) project in the waters off Perth, near Garden Island, Western Australia.

As I mentioned at the Company's recent Annual General Meeting of Shareholders, we were disappointed not to receive a Federal Government grant for a large scale demonstration project at a location in Australia. We are fortunate however to have secured the support of EDF EN, the subsidiary of the one of the largest power companies in the world, as a licensee and joint venture partner for Northern Hemisphere projects and Reunion Island, off Africa. Some of the best power tariffs globally exist in the Northern Hemisphere, as does 90% of the world's power market, so Carnegie's future is bound to be an international one.

2010 will be a defining year for Carnegie. The Company aims to demonstrate its CETO wave energy technology for the first time at commercial scale. Whilst this is not without risk, the reward for successful demonstration will be great. It will be the first time a commercial scale wave technology has been demonstrated in Australia. This will occur as the first stage of Carnegie's 5 MW project off Perth which, when it is delivered in 2011, will be the first commercially operating wave power project in Australia and the largest in the world. We will also continue to develop our project pipeline of sites through 2010 with a focus on a few, lucrative Northern Hemisphere opportunities.

We are ending the year by responding to interest in Carnegie from several institutional investors and raising sufficient capital to demonstrate the commercial scale CETO unit. As you have probably seen, we recently raised \$3.5 million through a share placement. The Board felt this a prudent step to take rather than looking to raise capital part way through a commercial scale demonstration process. We are now offering all eligible shareholders the opportunity to invest at the same price as the institutional and sophisticated investors in the share placement.

To that end, please find enclosed your Share Purchase Plan documentation which provides the opportunity for eligible shareholders to purchase fully paid ordinary shares in Carnegie Wave Energy Limited in share parcels of 40,000 (\$5,000), 80,000 (\$10,000) or 120,000 (\$15,000) at an issue price of 12.5 cents per share. In order to subscribe for shares, your application must be received by 5pm WST on 21 December 2009.

Please study the terms of the Offer carefully and if necessary, please seek professional advice.

Lastly, on behalf of the entire team at Carnegie, I wish you all the best for 2010.

Yours sincerely



**Grant Mooney**  
**Chairman**

## **CARNEGIE WAVE ENERGY LIMITED SHARE PURCHASE PLAN OFFER**

Carnegie Wave Energy Limited ABN 69 009 237 736 ("**Company**") wishes to implement a Share Purchase Plan ("**Plan**"). The Plan offers eligible shareholders the ability to subscribe for \$5,000, \$10,000 or \$15,000 worth of fully paid ordinary shares in the Company ("**Shares**") through the Plan. To be eligible, you were required to be registered as a holder of fully paid ordinary shares, with a registered address in Australia as at 5.00pm (WST) on Thursday 3 December 2009.

The Company presently intends to limit the amount raised pursuant to the Plan to \$2,500,000 but reserves the right to accept oversubscriptions based upon the level of demand. In the event of an oversubscription, clause 11 of the terms and conditions of the offer of Shares under the Plan ("**Offer**") set out below will apply.

The funds raised by the Plan, will be used:

1. to meet costs associated with the deployment of a commercial scale wave energy device at Garden Island, Western Australia;
2. to continue with the review of potential commercial project sites; and
3. for additional working capital.

The Offer opens on 8 December 2009 and **closes at 5pm (WST) on 21 December 2009**. No late applications will be accepted, however the directors of the Company ("**Directors**") reserve the right to extend the closing date.

The purchase price for each Share under the Plan is \$0.125 per Share. This price is a 14% discount from the volume weighted average price of Shares sold on the Australian Securities Exchange ("**ASX**") during the previous five trading days ending 3 December 2009.

If you are eligible to subscribe for Shares under the Plan and you wish to participate, you must subscribe for 40,000 Shares for a consideration of \$5,000, 80,000 Shares for a consideration of \$10,000 or a maximum number of 120,000 Shares for a consideration of \$15,000. No fraction of Shares will be issued. The Company reserves the right to allot fewer Shares than an eligible shareholder applies for under the Offer, or no Shares, and any determination by the Directors in respect of any scaling back will be final. The number of Shares to be issued under the Plan shall not be greater than 30% of the number of Shares on issue. In the event that applications are received in excess of this threshold, the Company proposes to scale back the amount available to be subscribed for under each subscription option (being either \$5,000, \$10,000 or \$15,000), starting with the highest first. That is, applications for \$15,000 will be reduced first in order to bring the total subscriptions within the allowable threshold until such reduction reaches the next highest subscription option, being \$10,000, whereby these two upper subscription options will then be scaled downwards in equal proportions, and so forth. If a scale back occurs, the Company will refund any excess application money to eligible shareholders (without interest).

Please carefully read the terms and conditions relating to the Offer, as you will be bound by them.

If you have any questions in respect of the Plan, the Offer, or these terms and conditions please contact the Company's share registry on (08) 9315 2333.

## TERMS AND CONDITIONS

The following are the terms and conditions of the Offer under the Plan ("**Terms and Conditions**"). By accepting the offer to subscribe for Shares under the Plan, you will have agreed to be bound by these Terms and Conditions and the Company's constitution.

### **1. Class order 09/425 issued by the Australian Securities and Investments Commission**

The Offer has been structured to comply with the Australian Securities and Investments Commission Class Order 09/425 (as may be amended from time to time) ("**ASIC Class Order 09/425**") to enable the Company to issue Shares without a prospectus.

### **2. Opening and closing date of the Offer**

The Offer opens at 9.00am (WST) on 8 December 2009.

The Offer closes at 5.00pm (WST) on 21 December 2009.

No late applications will be accepted, however the Directors reserve the right to extend the closing date.

### **3. Who is eligible to participate in the offer?**

You are eligible to apply for Shares in the Offer if:

- your registered address, as recorded in the Company's register of members, is in Australia or New Zealand; and
- you were registered as a holder of Shares as at 5.00pm (WST) on 3 December 2009.

The Offer to each eligible shareholder is made on the same terms and conditions.

The Offer is non-renounceable (ie. you may not transfer your right to subscribe for Shares under the Offer to anyone else).

### **4. Is the Offer voluntary?**

The Offer is entirely voluntary and is subject to these Terms and Conditions. You do not have to participate if you don't want to.

### **5. How was the issue price determined?**

The issue price for each Share under the Offer is \$0.125. This price is a 14% discount to the volume weighted average price of Shares sold on the ASX during the previous five trading days ending 3 December 2009.

### **6. Important Information on price risk to consider**

Before deciding whether to accept the Offer, you should refer to the current market price of Shares, which can be obtained from the financial pages of your daily newspaper, your stockbroker, your financial adviser, or the ASX. Please note that the market price of Shares may rise or fall between the date of this Offer and the date when the Shares are issued to you under the Plan. This means that the price you pay per Share under this

Offer may be greater than or less than the price of Shares at the time the Shares are issued to you pursuant to this Offer. *In determining whether you wish to participate in this Offer and the extent to which you participate, you should seek your own personal financial and/or taxation advice referable to your own circumstances.*

**7. How much can you invest in the Offer?**

Subject to paragraph 8, if you are an eligible shareholder under the Plan, you can subscribe for a maximum of 120,000 Shares which will cost \$15,000. There is a minimum limit of 40,000 Shares that you can subscribe for under the Plan, which will cost \$5,000.

Please note that the maximum limit of 120,000 Shares applies to you even if you receive more than one Offer from the Company. For example, if you are both a sole and a joint shareholder of the Company as at 3 December 2009, you can only apply for Shares under the Offer once, either in your capacity as sole shareholder or joint shareholder, not both.

No fractions of Shares will be issued.

**8. Custodian Certification**

If on 3 December 2009 you are a custodian within the definition of "custodian" in ASIC Class Order 09/425 ("**Custodian**") and hold Shares on behalf of one or more persons (each a "**Participating Beneficiary**"), you may apply for up to a maximum of \$15,000 worth of Shares for each Participating Beneficiary, subject to providing a notice in writing to the Company on application for Shares pursuant to the Offer certifying the following:

- (a) that you hold Shares on behalf of Participating Beneficiaries on the record date and who have instructed you to apply for Shares on their behalf under the Plan;
- (b) the number of Participating Beneficiaries;
- (c) the name and address of each Participating Beneficiary;
- (d) the number of Shares that you hold on behalf of each Participating Beneficiary;
- (e) the number or dollar amount of Shares which each Participating Beneficiary has instructed you to apply for on their behalf; and
- (f) that there are no Participating Beneficiaries in respect of which the total of the application price exceeds \$15,000 worth of Shares, calculated by reference to Shares applied for by you as Custodian on their behalf under:
  - a. the Plan; and
  - b. any other Shares issued to you as Custodian in the 12 months before your application under an arrangement similar to the Plan,

in each case, as a result of an instruction given by them to you as Custodian to apply for Shares on their behalf.

For the purpose of ASIC Class Order 09/425, you are a Custodian if you are registered holder of Shares that:

- (a) holds an Australian financial services licence that:
  - a. covers the provision of a custodial or depositary service; or
  - b. includes a condition required the holder to comply with the requirements of ASIC Class Order 02/294; or
- (b) is exempt under:
  - a. paragraph 7.6.01(1)(k) of the *Corporations Regulations 2001*; or
  - b. ASIC Class Order 05/1270 to the extent that it relates to ASIC Class Order 03/184,  
  
from the requirement to hold an Australian financial services licence for the provision of a custodial or depositary service.

If you hold Shares as a trustee or nominee for another person, but are not a Custodian as defined above, you cannot participate for beneficiaries in the manner described above. In this case, the rules for multiple single holdings set out in paragraph 7 apply.

## **9. Shareholder Certification**

Subject to paragraph 8, an eligible shareholder must, on application for Shares pursuant to the Offer, certify to the Company that the total of the application price for the following does not exceed \$15,000:

- (a) the Shares the subject of the application under the Plan;
- (b) any other Shares issued to the eligible shareholder under the Plan or any similar arrangement in the 12 months before the application under the Plan; and
- (c) any other Shares which the eligible shareholder has instructed a Custodian to acquire on their behalf under the Plan; and
- (d) any other Shares issued to a Custodian in the 12 months before the application under the Plan as a result of an instruction given by the eligible shareholder to the Custodian to apply for Shares on their behalf under an arrangement similar to the Plan.

## **10. Costs of Participation**

The only cost to you associated with the Offer is the issue price of the number of Shares you wish to subscribe for. Under the Offer you do not have to pay for brokerage, commission or other transaction costs which would normally apply when you acquire Shares on market.

**11. Allotment of Shares and Variation on Number of Shares Issued**

The Shares will be allotted within 10 business days after the closing date.

The Company's share registry, Security Transfer Registrars Pty Limited, will send to you a holding statement in due course.

The Company presently intends to limit the amount raised pursuant to the Plan to \$2,500,000 but reserves the right to accept oversubscriptions based upon the level of demand. Without limiting the above, the Company reserves the right to allot fewer Shares than an eligible shareholder applies for under the Offer or no Shares, in the Company's discretion or if the Company believes the allotment of those Shares would contravene any law or the ASX Listing Rules. No interest will be paid on any money returned.

**12. What Rights Will the Shares Carry?**

Once the Shares are issued, they will rank equally with existing Shares in the Company and will carry the same voting rights, dividend rights, and entitlements to dividends, rights and bonus issues.

**13. Can the Company Change the Plan?**

The Plan may be changed, suspended or terminated by the Company at any time. If the Company changes, suspends or terminates the Plan it will advise ASX. The accidental omission to give notice of changes to or suspension or termination of the Plan or the non-receipt of any such notice will not invalidate the change, suspension or termination.

**14. Directors' Participation**

The directors of the Company, as eligible shareholders, may participate in the Offer (without having to obtain shareholder approval), on the same terms as all other shareholders in the Company.

**15. How Do You Pay for the Shares?**

All amounts in this Offer are expressed in Australian dollars. You must pay for the Shares either by:

- (a) BPAY® payment via internet or phone banking. You must also quote your reference number which is on the Share Purchase Plan Application Form. If you use this method, you should be aware of your financial institution's cut-off time (the time payment must be made by to be processed overnight). It is your responsibility to ensure funds are submitted correctly by the closing date and time; or
- (b) cheque, bank draft or money order in Australian dollars. Please make your cheque, bank draft or money order payable to "**Carnegie Wave Energy Share Application Account**" and cheques are crossed "**Not Negotiable**".

**16. Please ensure payment is for the exact amount.**

If you do not provide the exact amount, the Company reserves the right to, where you have not elected to pay by BPAY®, return your Share Purchase Plan Application Form and cheque, bank draft or money order. If the Company returns your Share Purchase Plan Application Form and cheque, bank draft or money order, no Shares will be allotted to you.

If you make a BPAY® payment and do not provide the exact amount, you will be deemed to have applied for such Shares for which you have paid, subject to the Terms and Conditions of the Plan.

You may only apply for the following numbers of Shares:

40,000 Shares – Total amount payable at \$0.125 per Share is \$5,000.  
80,000 Shares – Total amount payable at \$0.125 per Share is \$10,000.  
120,000 Shares – Total amount payable at \$0.125 per Share is \$15,000.

The minimum number of Shares you may subscribe for is 40,000 Shares and the maximum number of Shares you may subscribe for is 120,000 Shares.

**17. Will the Shares be quoted on the ASX?**

The Company will apply for the Shares allotted to you to be quoted on ASX, within the relevant period specified in the ASX Listing Rules.

**18. How is a Dispute Resolved?**

The Company may settle any dispute in connection with the Plan in any manner it thinks fit, whether generally or in relation to any participant, application or Share. The Company's decision shall be final and binding.

The Company reserves the right to waive strict compliance with any provision of these Terms and Conditions.

**HOW DO YOU APPLY FOR SHARES UNDER THE OFFER**

1. If you want to participate in this Offer please carefully read the Terms and Conditions relating to the Offer.
2. If you make a BPAY® payment, please ensure you make a payment for the exact amount of the Share parcel you want to subscribe for. You will be deemed to have applied for such Shares for which you have paid, subject to the Terms and Conditions of the Plan. You must quote your reference number which is on the Share Purchase Plan Application Form.

If you use this method, you should be aware of your financial institution's cut-off time (the time payment must be made by to be processed overnight). It is your responsibility to ensure funds are submitted correctly by the closing date and time, being no later than 5pm (WST) on 21 December 2009. **No late applications will be accepted, although the Directors reserve the right to extend the closing date.**

**You do not need to return the Share Purchase Plan Application Form if you have made payment via BPAY®.**

3. If you send in your cheque, bank draft or money order, you must complete all the required details in the enclosed Share Purchase Plan Application Form, noting that all amounts are expressed in Australian dollars:
- (i) Cross the box for the number of Shares you want to subscribe for noting the amount payable for that number of Shares.
  - (ii) Insert your name and telephone contact number and/or email address so that we may contact you if necessary.
  - (iii) You do not need to sign the Share Purchase Plan Application Form.
  - (iv) Ensure your cheque, bank draft or money order is made out for the exact amount of the Share parcel you want to subscribe for, payable to "**Carnegie Wave Energy Share Application Account**" and cheques crossed "**Not Negotiable**".
  - (v) Return the completed Share Purchase Plan Application Form, together with the cheque, bank draft or money order to Security Transfer Registrars Pty Limited:  

Security Transfer Registrars Pty Limited	Security Transfer Registrars Pty Limited
770 Canning Highway	PO Box 535
Applecross WA 6153	APPLECROSS WA 6953
AUSTRALIA	
  - (vi) Ensure that your completed Share Purchase Plan Application Form and payment reach Security Transfer Registrars by the closing date of the Offer being no later than 5pm (WST) on 21 December 2009. **No late applications will be accepted, although the Directors reserve the right to extend the closing date.**

In determining whether you wish to participate in this Offer you should seek personal financial and/or taxation advice referable to your own circumstances.

**By accepting this Offer you agree to be bound by the Terms and Conditions of the Offer and the Constitution of the Company.**