

ASX Announcement

31st January 2012

Report to Shareholders for the Quarter Ended 31st December 2011

ACTIVITIES SUMMARY

During the quarter Carnegie Wave Energy Limited (ASX: CWE) made significant technical and commercial progress on its proprietary CETO wave energy technology and its commercial demonstration project including:

- successfully raising \$6 million through an oversubscribed Share Purchase Plan (SPP);
- the completion of the preliminary design CETO demonstration project including doubling the unit output and dramatic reduction in installation time;
- the completion of the basis of detailed design for the Perth Wave Energy Project triggering a fourth milestone payment from the Western Australian Government;
- preparations for deployment of the CETO 4 unit by Électricité de France on Réunion Island part-funded by the French Government;
- advancing site selection and potential projects and grant funding opportunities in Canada, Ireland, Chile and Australia; and
- finalised a cost saving initiative to relocate the head office close to the Fremantle Wave Energy Research Facility.

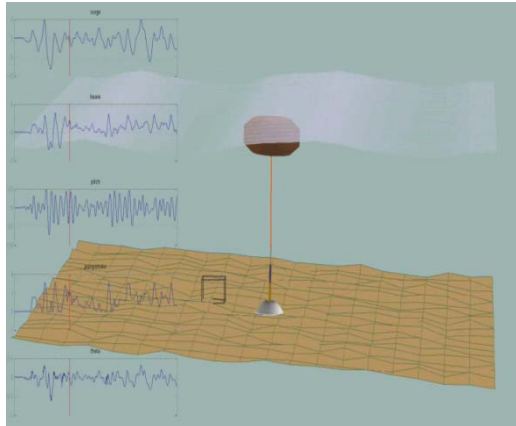
Currently Carnegie's main focus is on the rapid development of a revenue producing, grid connected, commercial demonstration project. The primary aim of this project is to demonstrate the reliable production and sale of power from an array of commercial scale CETO units.

1. CETO Wave Energy Technology Development

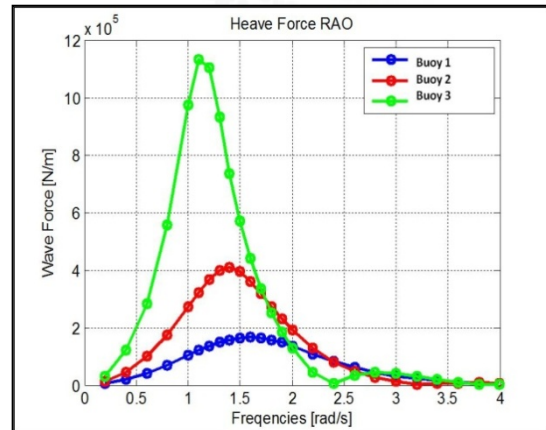
Demonstration Project Preliminary Design Complete

During the quarter Carnegie completed the preliminary design for the demonstration project which incorporated a number of significant enhancements from the CETO 3 unit. During the design it was concluded that the first grid connected demonstration project should be between 1 and 5MW with an approximate optimum of 2MW peak.

Throughout the quarter Carnegie's team of engineers and consultants have been analysing the data from the CETO 3 deployment and have worked to achieve an optimisation of the Buoyant Actuator geometry to offer a two-fold increase in power production from the CETO 3 unit.

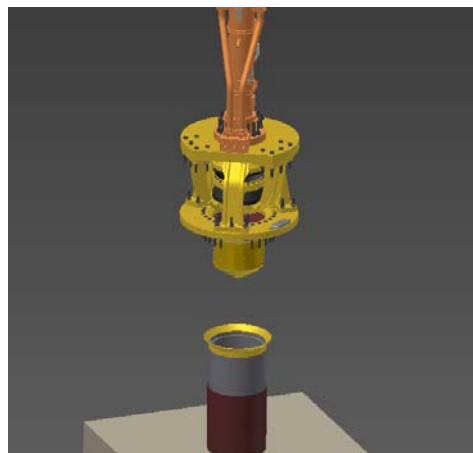


Carnegie's in house modelling, optimisation of the CETO system



Comparison of different Buoyant Actuator geometries

The demonstration project preliminary design also includes reduced installation time (from 7 days to 24 hours) as a result of focussing on a quick-connect installation system for the pile foundation.



Example of Foundation to Attachment quick-connect technology

Carnegie continued to work on the final site selection process for the demonstration project through continued cost benefit analysis of sites at Garden Island (WA), Reunion Island (France), British Columbia, Ireland and an undisclosed remote island. The final announcement on the demonstration project location will be made Quarter 1, 2012. This is slightly later than initially anticipated but allows the decision to be informed by material developments anticipated to occur over the coming weeks particularly in relation to Government funding.

Perth Wave Energy Project Basis of Detailed Design Complete

During the quarter Carnegie completed the basis of detailed design for the Perth Wave Energy Project. This work focussed on the full CETO system including CETO unit design and foundations, pipelines, onshore power generation facility and grid connection.

The Perth Wave Energy Project design has been optimised both financially and technically and will be constructed in two stages. The first stage will have a peak rated capacity of 2MW and be followed by a second stage of 3MW resulting in a total of 5MW peak rated capacity. These stages will allow Carnegie to deliver first power revenues in less time and at lower cost than a stand-alone 5MW single stage.

2. CETO Wave Energy Commercial Opportunities

Carnegie continued its strategy of the targeted pursuit of commercial opportunities for CETO in Australia and internationally.

Australia

The Commonwealth Heads of Government Meeting (CHOGM) in Perth provided Carnegie with the opportunity to host a number of national and international dignitaries at its private Wave Energy Research Facility in Fremantle. These visits allowed Carnegie to further inform potential markets about the advantages of CETO wave energy technology.

Carnegie hosted the Australian Federal Minister for Climate Change and Energy Efficiency, the Hon Greg Combet AM MP and Melissa Parke MP as well as welcoming the Deputy Prime Minister of the Bahamas, the Hon T Brent Symonette during the quarter.

Carnegie's Managing Director, Dr Michael Ottaviano also presented at the Commonwealth Business Forum at a clean technology roundtable in the lead up to CHOGM.



Carnegie CEO, Dr Michael Ottaviano briefing Minister Combet on the CETO technology

France - Réunion Island

The quarter saw the continuation of preparations for the deployment of the CETO 4 unit on Réunion Island. This followed from the completion of manufacture of the unit last quarter. Deployment is expected to be completed in the current southern hemisphere summer.

Successful deployment, testing and operation of the CETO 4 unit is planned to be followed by a 2MW grid-connected project at the same site with a subsequent possible expansion to a 15MW project.

Carnegie's CETO technology licence and joint venture agreement with EDF-EN will result in Carnegie being paid a fee in all commercial stages beyond the first single CETO 4 unit.



CETO 4 Buoyant Actuator during manufacture



CETO 4 foundation deployment

Canada - Ucluelet Wave Energy Project

During the quarter, Carnegie submitted, through its Canadian based subsidiary, Pacific Coastal Wave Energy Corporation (PCWE), a funding application to develop a 5MW CETO demonstration project off Ucluelet, British Columbia, Canada. PCWE has been developing the Project for over 2 years and has submitted its funding application under the Canadian Government's ecoEnergy Innovation Initiative (ecoEII). The decision on this grant is expected in Quarter 1, 2012.

In addition, Carnegie has also signed a Memorandum of Understanding (MoU) with Canadian independent engineering firm, Hatch Engineering for the provision of Engineering, Environmental and Project Management Services to the Ucluelet Project.

The Ucluelet Project will provide the opportunity to demonstrate CETO on a commercial scale and help grow Canada's marine renewable energy sector.

The Project site is located at Amphitrite Point, Ucluelet on the west coast of Vancouver Island, British Columbia.



Aerial photo of Ucluelet inlet and Amphitrite Point, Canada

USA – Official Wave Energy Resource Estimates

The quarter saw the United States Department of Energy (DOE) and Electric Power Research Institute (EPRI) release an updated estimate of total available ocean wave energy resource of 2,640 TWh/yr.

The EPRI report, “Mapping and Assessment of the United States Ocean Wave Energy Resource”, estimates the total available wave energy resource along the U.S. continental shelf edge using a 51-month Wavewatch III hindcast database developed especially for this study by the National Oceanographic and Atmospheric Administration’s (NOAA’s) National Centers for Environmental Prediction.

The total available wave energy resource estimate of 2,640 TWh/yr is an update and an increased by 26% from the 2004 estimate.

When combined with new US estimates for the tidal energy resource from the report “Assessment of Energy Production Potential from Tidal Streams in the United States”, this suggests that water power, including conventional hydropower, wave, tidal and other water power, has the potential to supply 15% of all US power needs by 2030.

A Canadian wave energy resource assessment estimated a total available wave energy resource of approximately 1,610 TWh/yr (183,500 MW) in Canada. This means the combined total available North American wave energy resource is now approximately 4,250 TWh/yr.

Ireland

During the quarter, Carnegie's Irish subsidiary, CWE Ireland formally applied for a Foreshore Licence for a proposed 5MW CETO commercial demonstration project offshore from County Clare. This follows on from previous Irish studies undertaken by Carnegie in conjunction with the Sustainable Energy Authority of Ireland (SEAI). Securing a Foreshore Licence over the Clare site will provide Carnegie with the confidence to invest the time and resources to further develop the Project through planned environmental surveys and detailed engineering.



Carnegie Executive Director, Kieran O'Brien, at the potential CETO demonstration site in County Clare, Ireland

Chile

Carnegie continued to develop its global project pipeline, through the appointment of a South American Development partner, and completion of a site assessment study for CETO projects along the Chilean coast.

Based on the favourable site assessment results, Carnegie appointed Chilean based Renewable Energy Development Enterprises (REDE) as its local Chilean development partner during the quarter. A five year development agreement was signed between Carnegie and REDE, which will see the companies working together to develop CETO projects in Chile. Under the agreement, the executive director of REDE, Arturo Troncoso has been appointed as Carnegie's South American Development Manager. Mr. Troncoso has had a distinguished career with the Chilean Navy and has extensive experience in the Chilean hydroelectric and mining industries.

Carnegie's completion of the basis of detailed design for the Perth Wave Energy Project at Garden Island, triggered a fourth milestone payment of \$145,000 from the Western Australian Government, under the LEED fund. Carnegie has now drawn down approximately \$2.8 million (exclusive of GST) of the \$12.5 million grant.

In November Carnegie shareholders were, given the opportunity to visit the Fremantle Wave Energy facility at the Company's Annual General Meeting (AGM) attended by the full Board of Directors. It gave shareholders the opportunity to view firsthand the CETO 3 components previously deployed off Garden Island, Western Australia.



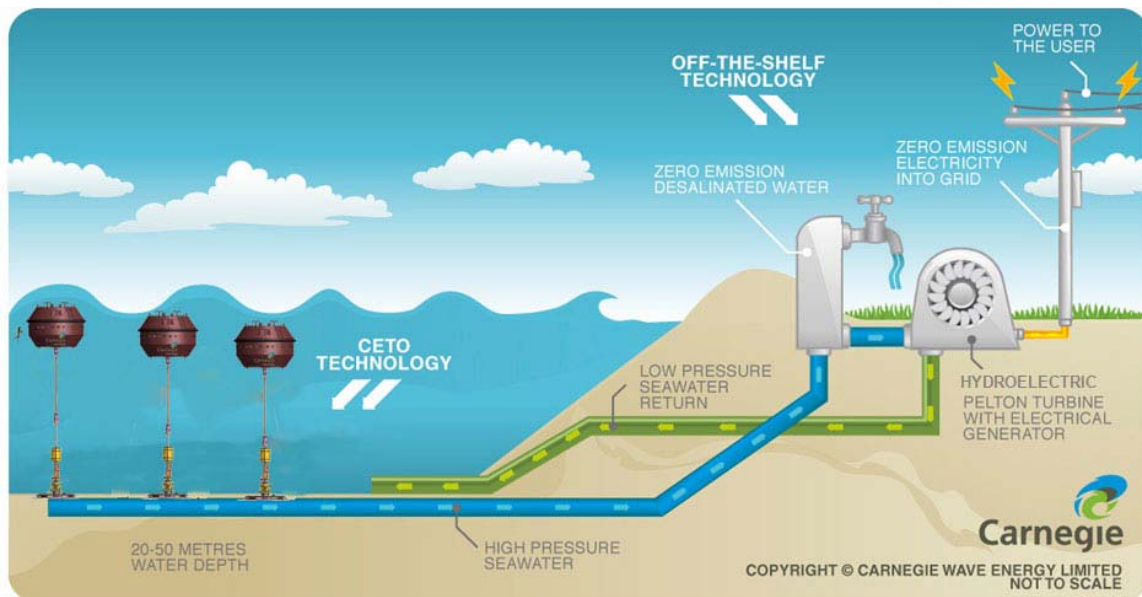
Carnegie Board of Directors (clockwise from left) Jeffrey Harding, Kieran O'Brien, John Leggate, Chairman Grant Mooney, Dr Michael Ottaviano and Greg Bourne at Carnegie's Fremantle Wave Energy Research Facility at the 2011 AGM.

During the quarter Carnegie finalised agreements to move the corporate head office from West Perth to North Fremantle, in close proximity to the Fremantle Wave Energy Research Facility. The office move will provide better access to the Fremantle facility and to the Perth Wave Energy Project at Garden Island. The office move, which will be completed in February 2012, will deliver immediate and ongoing cost savings. During the February office transition the official head office of Carnegie will be temporarily located at the Fremantle research facility.

About CETO

The CETO system distinguishes itself from other wave energy devices by operating out of sight and being anchored to the ocean floor. An array of submerged buoys is tethered to seabed pump units. The buoys move in harmony with the motion of the passing waves, driving the pumps which in turn pressurise water that is delivered ashore via a pipeline.

High-pressure water is used to drive hydroelectric turbines, generating zero-emission electricity. The high-pressure water can also be used to supply a reverse osmosis desalination plant, reducing electrical energy conversion losses and replacing greenhouse gas emitting electrically driven pumps usually required for such plants.



CETO Technology characteristics include:

- CETO converts wave energy into zero-emission electricity and desalinated water
- CETO is environmentally friendly, has no visual impact and co-exists with marine life
- CETO is fully submerged, where it is safer from storms, and in deep water away from popular surf breaks and coastal activities.

About Carnegie

Carnegie Wave Energy Limited is an Australian, ASX-listed (CWE) wave energy and clean technology developer. Carnegie is the 100% owner and developer of the CETO Wave Energy Technology intellectual property.

For more information:

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Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

CARNEGIE WAVE ENERGY LIMITED

ABN

69 009 237 736

Quarter ended ("current quarter")

31 December 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) staff costs	(491)	(971)
(b) advertising and marketing	(13)	(17)
(c) research and development	(790)	(1,891)
(d) leased assets	-	-
(e) other working capital	(359)	(831)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	28	76
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material) – WA LEED	145	145
Net operating cash flows	(1,480)	(3,489)

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (6 months) \$A'000
1.8 Net operating cash flows (carried forward)	(1,480)	(3,489)
Cash flows related to investing activities		
1.9 Payment for acquisition of:	-	-
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	(29)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	26
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
	-	(3)
Net investing cash flows		
1.14 Total operating and investing cash flows	(1,480)	(3,492)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	6,008	6,008
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other	-	-
	6,008	6,008
Net financing cash flows		
Net increase (decrease) in cash held	4,528	2,516
1.21 Cash at beginning of quarter/year to date	2,902	4,914
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 Cash at end of quarter	7,430	7,430

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	246
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Payments to Directors are consulting fees, salary and superannuation.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	6,237	75
4.2 Deposits at call	871	2,505
4.3 Bank overdraft	-	-
4.4 Other (provide details) – <i>Guarantee facilities</i>	322	322
Total: cash at end of quarter (item 1.23)	7,430	2,902

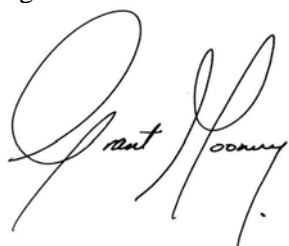
Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	-	-
5.2 Place of incorporation or registration	-	-
5.3 Consideration for acquisition or disposal	-	-
5.4 Total net assets	-	-
5.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Print name: GRANT J. MOONEY Company Secretary

Date: 31 January 2012

+ See chapter 19 for defined terms.

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. Accounting Standards. ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.