

17 September 2008

Please find attached audited financial statements for the financial year ended June 30<sup>th</sup> 2008

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**CARNEGIE CORPORATION LIMITED**  
**ABN 69 009 237 736**  
**AND CONTROLLED ENTITIES**

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**FINANCIAL REPORT**  
**FOR THE YEAR ENDED**  
**30 June 2008**

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## CARNEGIE CORPORATION LIMITED

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#### CORPORATE GOVERNANCE

Carnegie Corporation Limited is a clean energy technology development company. The Company has established procedures to encourage and maintain a culture of good corporate governance.

Unless otherwise stated, the practices detailed in this statement have been in place for the entire reporting period ended 30 June 2008.

#### **Board of Directors / Executive Management**

The Board comprises of an Executive Chairman, Managing Director and three Non-Executive Directors. Full details of The Company's Board of Directors and their relevant experience and skills are detailed within the Directors' Report. The Company's Constitution requires that one third of the members of the Board retire by rotation each year but are eligible for re-election.

Any new director appointed holds office only until the next general meeting and is then eligible for re-election. The Company has adopted a policy governing the procedure for selection and appointment of new directors. The Policy provides guidelines to ensure that any such person to be appointed as a Director possesses an appropriate level of qualifications, expertise and experience. Due to its size, the Company does not have a Nomination Committee.

The Directors are aware of their responsibilities and obligations to protect shareholder's funds. Due care is taken to explain both the positive and negative aspects in all reports to highlight the inherent risks involved in research and development and other activities.

#### **Independence of Board Members**

The Board of Directors comprises of three non-executive directors. These three non-executive directors, being Ian Fisher, Bruce McLeod and Grant Mooney, are considered by the Board of Directors as independent for the purposes of the Australian Securities Exchange Corporate Governance Council "Principles of Good Corporate Governance and Best Practice Recommendations".

Ian Fisher, Bruce McLeod and Grant Mooney are considered "independent" as neither director;

- is a member of management;
- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
- within the last three years has been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with the Company or another group member other than as a director of the Company;
- has served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company;
- has any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

#### **Management of Strategic Business Operations**

The Board of Directors determine the strategic direction of the Company by regularly monitoring and evaluating the performance and status of each of the Company's projects and activities, with the objective of maximising and enhancing the reputation and performance of the Company to increase shareholder value. Advice on the performance of the Company's projects and investments is also provided by consultants and employees, where required.

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#### **Risk Management Policy**

Risk recognition and management are viewed by the Company as integral to its objectives of creating and maintaining shareholder value, and the successful execution of the Company's research and development.

The Board as a whole is responsible for oversight of the processes by which risk is considered for both ongoing operations and prospective actions.

Management is responsible for establishing procedures which provide assurance that major business risks are identified, consistently assessed and appropriately addressed.

Not all aspects of risk management can be formalised and the Company places considerable reliance on the skill, experience and judgement of its people to take risk managed decisions within the policy framework, and to communicate openly on all risk related matters.

There are a range of specific risks that have the potential to have an adverse impact on the Company's business. The Company has developed a framework for a risk management policy and internal compliance and control system which covers organisational, financial and operational aspects of the Company's affairs.

Key elements of the framework for the management of risk by Carnegie Corporation Limited are:

- oversight of the Company's financial affairs by the Audit Committee;
- the formulation of programmes for research and development;
- regular reporting against established targets;
- approval guidelines for research and capital expenditure;
- regulatory compliance programmes and reporting in key areas such as safety and environment;
- management of capital and financial risk;
- an annual insurance program;
- oversight of the conduct of contractors.

#### **Risk Evaluation and Control**

The management team, under the leadership of the Managing Director, draw together from within their ranks a group who periodically meet to identify and assess specific business risks. The group has experience in all of Carnegie Corporation Limited's activities and is broadly conversant with the Company's business plans, objectives and values.

Based on reviews of the Company's business, an overall profile of the risks is established.

In assessing and managing identified risks:

- risks are assessed in terms of potential consequences and likelihood;
- risks are ranked in accordance with their likely impact;
- the acceptability of each identified risk is assessed;
- proposed actions to eliminate, reduce or manage each material risk are considered and agreed;
- responsibilities for the management of each risk are assigned.

The overall results of this assessment are presented to the Board at least annually and updated as necessary.

Periodic review is made at least annually in respect of the effectiveness and suitability of the risk management plan.

The Board ultimately has responsibility for internal compliance and control. The Audit Committee has responsibility for ensuring that internal control systems are in place to monitor and manage risk.

The Company has a number of financial control processes to ensure that the information that is presented to senior management and the Board is both accurate and timely. The control processes include, among other things:

- annual audit and half year review by the external auditor;
- internal audit program to review the quality and effectiveness of internal processes, procedures and controls;
- management review of the balance sheet and internal control environment;
- monthly review of financial performance compared to budget and forecast; and
- analysis of financial performance and significant balance sheet items to comparative periods.

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#### Remuneration Committee

The Board has established a Remuneration Committee for the purposes of making recommendations to the Company's Board of Directors on remuneration packages and policies applicable to senior executives and the Directors themselves.

The functions of a Remuneration Committee would generally include review of;

- policies for salaried personnel and directors remuneration annually;
- the basis of the calculation for senior executives' and directors' remuneration annually to ensure that it appears reasonable;
- current industry practice and the professional executive recruitment organisations' publications;
- different methods for remunerating senior executives and directors;
- existing or proposed share option schemes;
- superannuation payments;
- retirement and termination payments;
- fringe benefits;
- professional indemnity and liability insurance policies;
- related party transaction disclosure in the financial statements;
- communication with major shareholders and institutional investors to gauge their views on remuneration packages; and
- annual leave policies (and long service leave).

The Remuneration Committee consists of two Non-Executive Directors. All members are considered independent. Access is also available to the Company's auditors and senior managers, and the ability to consult independent experts when necessary.

The Remuneration Committee reports a summary of the findings of each Committee Meeting to the Board of Directors. All Directors receive a copy of the minutes of the Remuneration Committee meetings.

During the financial year the Remuneration Committee met on one occasion to undertake a remuneration review of staff and executive management with findings provided to the Board of Directors which were subsequently adopted. Ian Fisher (Non-Executive Director), Bruce McLeod (Non-Executive Director) and Grant Mooney (Secretary) were in attendance.

The Company has established policies for the remuneration of executive and non-executive directors as well as the process for evaluation of the Board and Senior Executives. The Chairman oversees the evaluation of non-executive directors while the independent Board carries out the evaluation of the Chairman with the assistance of an unrelated third party if required.

In relation to non-executive directors, there are presently no schemes for retirement benefits, other than statutory superannuation.

The Executive Directors are remunerated based on the provision of consulting services provided to the Company for executive management and for their services as Directors. The Directors fees are determined by the Company in general meeting and other consulting services are remunerated at levels independently agreed by the Remuneration Committee.

Non-executive Directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. The sum each Non-Executive Director is paid is determined by the Remuneration Committee from time to time. Additional fees may be paid for participation on Board Committees, however, the total fees paid to Non-Executive Directors, including fees paid for participation on Board Committees, are kept within the total amount approved by shareholders.

#### Audit and Audit Committee

The Company has established an Audit Committee with an established Charter.

The Audit Committee comprises Ian Fisher (Non-Executive Director), Bruce McLeod (Non-Executive Director) and Grant Mooney (Non-Executive Director/Company Secretary).

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The Company in general meeting is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

The Company has appointed, with their consent, WHK Horwath as its auditors. The Audit Committee is satisfied that the external auditors were not engaged for non-audit services during the financial year ended 30 June 2008.

#### **Independent Professional Advice**

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

#### **Ethical Standards**

Carnegie is committed to the highest standards of ethical business conduct. As part of that commitment, Carnegie established a Code of Conduct to guide executives, management and staff in carrying out their duties and responsibilities. The Code is subject to ongoing review to ensure that Carnegie's standards of behaviour and corporate culture reflect best practice in corporate governance. The Code is based on the following key principles:

- acting with honesty and integrity
- abiding by laws and regulations
- respecting confidentiality and handling information in a proper manner
- maintaining the highest standards of professional behaviour
- avoiding conflicts of interest
- striving to be a good corporate citizen and to achieve community respect.

Carnegie also has a number of specific policies that underpin the Code of Conduct and elaborate on various legal and ethical issues. These policies are designed to foster and maintain ethical business conduct within Carnegie, and govern such things as workplace and human resources practices, handling of confidential information, insider trading, risk management and legal compliance.

In addition, the Board has guidelines dealing with disclosure of interests by Directors in participating and voting at Board meetings where any such interests are discussed. In accordance with the Corporations Act, any Director with a material personal interest in a matter being considered by the Board must not be present when the matter is being considered, and may not vote on the matter.

#### **Share Trading**

A formal policy has been adopted which is to ensure compliance with the "insider trading" provisions of the Corporations Act by the Board of Directors, executive staff and all employees who may be in possession of sensitive information concerning the Company's affairs, prior to release to the market.

#### **Shareholder Communications Policy**

The Company has established a Shareholder Communications Policy to ensure that shareholders are informed of all major developments affecting the Company. All shareholders receive the Company's annual report, and may also request copies of the Company's half-yearly and quarterly reports. The Company also encourages full participation of shareholders at the annual general meeting of the Company.

In addition, the Company maintains a website at [www.carnegiecorp.com.au](http://www.carnegiecorp.com.au), on which the Company makes information available on a regular and up to date basis.

The Company maintains a database of shareholders who receive automatic email updates of significant developments in the Company's affairs.

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**EXPLANATION FOR DEPARTURE FROM BEST PRACTICE RECOMMENDATIONS**

The Company has complied with each of the Ten Essential Corporate Governance principles and the corresponding Best Practice Recommendations as published by ASX Corporate Governance Council ("ASX Principles and Recommendations"), other than in relation to the matters specified below.

Principle No	Best Practice Recommendation	Compliance	Reason for Non-compliance
2.2, 2.3	The chairman should be an independent director	Alan Burns is the Chairman of the Company. However, his involvement in an executive capacity is limited to specific projects and not in the day-to-day corporate management of the Company.  Given Mr Burns classification as an executive, the Company does not satisfy the test of 'independence' as set out in the ASX Corporate Governance Council Practice Recommendations.	The Board considers that the executive role carried out by Alan Burns is in the best interests of The Company given its size and is without conflict.
2.4	The board should establish a nomination committee	The Board does not have a Nomination Committee	The Board members have concluded that no efficiencies would be achieved by establishing a separate nomination committee. The functions of any nomination committee are normally undertaken by the full board.

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**DIRECTORS' REPORT**

**30 JUNE 2008**

The Directors present their report on Carnegie Corporation Ltd ("the Company" or "Parent Entity") and its controlled entities, ("the Economic Entity") for the financial year ended 30 June 2008.

**DIRECTORS**

The Directors of the Company in office at any time during or since the end of the financial year are:

**Alan Robert Burns** (*Chairman*). Mr Burns has been actively involved in the technology development and commercialisation as well as the natural resources industry in Australia and internationally for over thirty years. In this period Mr Burns, either as a Chairman or Managing Director of a public or private companies, has participated in the successful development and commercialisation of several technologies, the exploration and development of onshore and offshore oil and gas fields, and gold and diamond mines in Australia. Mr Burns has also won a number of international awards for commercial engineering inventions. Mr Burns is the inventor of the CETO Wave Technology and the Cleaner Coal Power technology.

Mr Burns has been a Board member and Chairman of Carnegie Corporation Ltd since 28 April 1993. He is currently a Director of Renewable Energy Holdings Plc (since 11 February 2005) and was formerly Chairman of Hardman Resources Limited (from 16 December 1986 to 3 July 2006).

**Dr Michael Edward Ottaviano** *B.Eng, MSc, DBA, MAICD, M.I.EngAus (Managing Director)*. Dr Ottaviano has been employed by Carnegie Corporation Ltd since 9 January 2006 initially as the General Manager of Technology and Innovation, then as CEO before being made Managing Director in March 2007. He has previously worked in research and development and was a divisional manager for a private Australian engineering company. Prior to joining Carnegie Corporation Ltd, he was a Senior Manager specialising in Technology and Innovation consulting at a global accounting and advisory firm. He has advised companies on new product development, intellectual property, innovation portfolio management and technology commercialisation across various industries and ranging from start-ups to ASX-listed companies with market capitalisations in excess of \$1 billion. He completed his Doctorate in Business Administration in the field of Corporate Entrepreneurship and Innovation.

**Grant Jonathan Mooney** *B.Bus, CA (Non-Executive Director & Company Secretary)*.

Mr Mooney is the principal of Perth-based corporate advisory firm Mooney & Partners, specialising in corporate compliance administration to public companies. Mr Mooney has gained extensive experience in the areas of corporate and project management since commencing Mooney & Partners in 1999. His experience extends to advice on capital raisings, mergers and acquisitions and corporate governance. Currently, Mr Mooney serves as a director and company secretary to several ASX listed companies across a variety of industries including technology and resources. He is a director of ASX listed Ampella Mining Limited, from 1 July 2008, and Barra Resources Limited, since 29 November 2002. Mr Mooney is a member of the Institute of Chartered Accountants in Australia.

Mr Mooney was appointed as a Director on the 19th February 2008. Mr Mooney also holds the position of Company Secretary.

**Ian Charles Fisher** (*Non-Executive Director*), As the former Chairman of Business Affairs for the Jacques Cousteau Society of Australia, Mr Fisher has had an active interest in the ocean and the preservation thereof. The Society's main aim is to educate people about the ocean and its contribution to life. Mr Fisher is also a past Chairman of The West Australians Premiers Regional Investment Group. He has also been successfully involved in retail industry for some 26 years. Mr Fisher has been a Board member of Carnegie Corporation Ltd for five years since 17 January 2003. Prior to 2003, he was a director and shareholder of a group of cattle stations in the Kimberley and was a founding shareholder and Director of Atlas Pacific Ltd - a pearl farming company listed on the ASX. He is the past Chairman of African Consolidated Resources – an exploration company listed on the London Stock Exchange since 2004.

**Bruce William McLeod** *B.Sc, M.Com (Non-Executive Director)*, Mr McLeod has had extensive experience in the Australian capital markets. He has been involved in raising debt and equity capital for a number of property and resource projects, as well as the takeover and rationalisation of listed and unlisted companies. Prior to this he was Executive Director for an International Bank in Australia, responsible for the financial and capital markets operations. In the early 1980's he spent several years in the stock broking industry in New Zealand before moving to Australia. Mr McLeod has been a Board member of Carnegie Corporation Ltd with 12 years service since 1 November 1996. Mr McLeod is also Chairman of Imperial Corporation Limited (since 21 May 1996) and a director of Fall River Resources Limited (since 6 February 2008).

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Mr McLeod was a former Director of Hudson Timber Products Ltd (from 2 March 1998 to 3 November 2005) and Bemax Resources Limited (from October 2000 to 9 July 2008).

**Alan Gerard Hopkins** *B.Bus, CA (Non-Executive Director)*, Mr Hopkins has more than twenty five years experience in senior & general management roles including numerous start up, high growth international operations. He was a founding Australian executive for the major international engineering group, Edward L. Bateman Pty Ltd & Managing Director of Moonstone Diamond Corporation Ltd. Mr Hopkins has been a Board member of Carnegie Corporation Ltd for 8 years (since 19 May 1999) and served as Managing Director of the Company to 31 August 2006. He is now Managing Director of Carnegie Minerals Plc. Mr Hopkins was a former non-executive director of Resource Mining Corporation Ltd from 14th May 2003 to 10th May 2004.

Mr Hopkins resigned as a Non-Executive Director of Carnegie Corporation Ltd on the 19th February 2008.

At the date of this report, the direct and indirect interest of the Directors in the shares and options of the Company were:

	<b>Ordinary Shares</b>	<b>Options</b>
Alan Robert Burns	-	30,000,000
Bruce William McLeod *	250,000	-
Ian Charles Fisher **	1,550,000	-
Dr Michael Edward Ottaviano ***	350,000	34,100,000
Grant Jonathan Mooney ****	1,694,901	-

\* Mr B McLeod is a Director of Eastern & Pacific Capital Pty Ltd and therefore is deemed to have an interest in 250,000 ordinary shares held by Eastern & Pacific Capital Pty Ltd.

\*\* Mr I Fisher is a Director of Notezy Pty Ltd and therefore is deemed to have an interest in 1,550,000 ordinary shares held by Notezy Pty Ltd.

\*\*\* Dr M E Ottaviano is deemed to have an interest in these shares held by his spouse, Amanda Ottaviano.

\*\*\*\* Mr G J Mooney is a Director of Mooney & Partners Pty Ltd and therefore is deemed to have an interest in 1,694,901 ordinary shares held by Mooney & Partners Pty Ltd.

**COMPANY SECRETARY**

The following person held the position of company secretary at the end of the financial year:

**Mr Grant Jonathan Mooney**

**PRINCIPAL ACTIVITIES**

The principal activities of the company are in the development and commercialisation of clean energy technologies.

**OPERATING RESULTS**

The consolidated loss of the Economic Entity for the financial year ended 30 June 2008 after providing for income tax amounted to \$18,928,364 (2007: consolidated loss \$2,943,321).

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#### DIVIDENDS

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2008. No dividends were paid during the financial year.

#### REVIEW OF OPERATIONS

The Economic Entity continued to increase its focus on the development and commercialisation of clean energy technologies. This continues the Company's involvement in this sector which started a number of years ago with the Pursuit Jet Drive and the initial CETO Wave technology investment. The primary focus of the Company is commercialising the CETO Wave Technology and in developing its portfolio of emerging clean technologies.

The Company also continues to maintain a significant interest in Carnegie Minerals, listed on London's AIM. Directors have reviewed the asset for sale and concluded that there is no market for the investment at the current time. As such the investment will be retained until a market in the stock becomes available.

During the financial year and to the date of this report, the Economic Entity:

- Executed the CETO Wave Energy licence with CETO technology owner Renewable Energy Holdings Plc ("REH") which gave an exclusive right to develop and deploy the CETO technology in the Southern Hemisphere;
- Made significant technical progress on the CETO prototype with the manufacture, deployment and testing of CETO 2 units at its Fremantle Wave Energy R&D Facility;
- Continued progress on Carnegie's Cleaner Coal Power ("CCP") technology including applying Carnegie's computational fluid dynamic (CFD) design capabilities which has lead to design modifications to the heat exchange system unit ahead of further testing;
- Acquired the rights to solar thermal and wind aerofoil technology increasing the size of the development pipeline for new clean technologies;
- Acquired 207,665 shares in Renewable Energy Holdings Plc ("REH") in December 2007, for a consideration of \$243,933, Carnegie currently owns 2.86% of REH; and
- On 28 March 2008, the economic entity announced that it has been shortlisted to continue to the next stage of the contracts establishment process for the supply of the Tranche 2 Renewable Energy to the Southern Seawater Desalination Plant ("SSDP") at Binningup in Western Australia.

#### FINANCIAL POSITION

The net assets of the Economic Entity have increased by \$2,246,601 from 30 June 2007 to \$7,125,275 in 2008. This increase has largely resulted from the following factors:

- The issue of 151.4 million shares in November 2007 raising \$15,140,000, excluding issue costs. These funds were raised to fund the CETO project,
- The issue of 10 million shares in May 2008, raising \$2,500,000, excluding issue costs. These funds will primarily be used for advancing the commercial site selection and assessment process for the CETO Wave Energy Technology.
- Increase in Innovation and Technology expenditure, including the CETO Wave Energy project, Cleaner Coal Power project and the solar thermal and wind aerofoil technology.

However, significant events subsequent to year end display the continued focus on the company's research & development activities. As a result, the Directors believe the Group is now in a stronger financial position to expand and grow its current operations.

#### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

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- i On 9 August 2007, the economic entity completed the signing of an Agreement with REH to take over the remaining development of the CETO Wave Energy project in return for the exclusive operating license for CETO projects in the Southern Hemisphere. The announcement on the signing of the formal agreement was on 10 April 2008.
- ii On 9 November 2007, the economic entity announced the issue of share options to Chairman Alan Burns and Managing Director Michael Ottaviano. A total of 30 million share options each were issued, in three equal tranches with increasing exercise prices of 20 cents, 30 cents and 40 cents as part of the Directors' remuneration packages.
- iii On 9 November 2007, the parent entity announced the issue of 151.4 million shares at an issue price of 10 cents each raising \$15.14 million before costs. 100 million shares have been issued as part of the private placement to sophisticated shareholders and 51.4 million shares have been issued as part of the share purchase plan.
- iv On 11 January 2008, the parent entity issued a long-term incentive plan scheme to employees and consultants as part of a range of potential incentives available to employees and consultants and to strengthen links between The Company and its employees and consultants. The incentive plan is a cash-settled share-based scheme.
- v On 11 January and 21 May 2008, the parent entity announced the issue of employee options via the employee incentive option scheme in order to increase the range of potential incentives available to employees and to strengthen links between The Company and its employees. During the year a total of 4 million options were issued to senior management.
- vi On 21 February 2008, the economic entity announced the acquisition of a new solar thermal technology and a wind aerofoil technology for no consideration but will fund the development of the technologies and once commercial, will pay a 2% royalty on revenue earned by the technologies.
- vii On 10 April 2008, the economic entity announced the formal signing of the Licence Agreement with REH. Carnegie has secured 100% ownership of all CETO Wave farms in the Southern Hemisphere in return for funding the development of the CETO technology to a maximum of AUD\$10.3 million and the payment of a license fee and royalty.
- viii On 21 May 2008, the parent entity issued 10 million ordinary shares at 25 cents per share via a private placement to institutional and sophisticated investors and will primarily be used for advancing the commercial site selection and assessment process for the CETO Wave Energy Technology.

### SIGNIFICANT EVENTS SUBSEQUENT TO END OF YEAR

The following events occurred subsequent to the end of the financial year:

- On 5 August 2008, the economic entity announced that it had been advised by the Western Australian Government that it was to be the recipient of an exclusive license and option to lease over an area of seabed offshore from Albany for the purposes of capturing wave energy.
- At the time of completing this report, Carnegie had entered into an agreement with the Fremantle Port Authority (FPA) for the leasing of on-shore land and a seabed lease as part of continued development of the CETO project. More details are included in Note 21 & 25a of the Financial Report.

With the exception of the above, no other matters or circumstances not otherwise dealt with in this report or the consolidated financial statements, have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of the Economic Entity, the results of those operations or the state of affairs of the Economic Entity in subsequent financial years.

### PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

## **FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES**

The Company made significant progress in continuing its strategy of focusing on its clean energy technology commercialisation activities. The Company's recent agreement to fund the balance of the CETO Wave Energy technology in return for the exclusive Southern Hemisphere operating licence and its ongoing development of the Cleaner Coal Power technology means that it is uniquely positioned as a diversified clean energy technology developer. The Company has also agreed to fund future research and development activities on solar thermal and wind aerofoil technologies to provide a research and development pipeline for future commercialisation activities.

The Company intends to develop its technologies through to commercialisation and to operate them beyond this, as well as continue to look at other clean energy related technologies and investments that can add shareholder value.

The Company is well progressed in selecting a site for the deployment of its CETO commercial demonstration project and the granting of a license and option to lease by the Western Australian Government is a significant step forward. The Company continues to investigate further sites in Australia and internationally for the development of commercial wave farms of a size between 5 and 50MW per site.

The Senior Management team has been expanded to provide a base for the development of the commercial power projects that the Company intends to undertake.

## **ENVIRONMENTAL ISSUES**

The Economic Entity is required to carry out its activities in accordance with the laws and regulations in the areas in which it undertakes its activities.

## **SHARE OPTIONS**

At the date of this report, there were 64,100,000 options outstanding in respect of unissued ordinary shares to directors.

No options were exercised during the year.

## **INDEMNIFYING OFFICER OR AUDITOR**

During or since the year end the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

- The Company has paid premiums to insure the Directors against certain risks they are exposed to as Directors of The Company; and
- The Company has agreed to grant Directors a right of access to certain Company Records.

The Company has paid premiums to insure each director against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of a director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The amount of the premium was \$23,300.

## **REMUNERATION REPORT**

This report details the nature and amount of remuneration for each director of Carnegie Corporation Limited and for the executives receiving the highest remuneration.

### ***Remuneration Policy***

The remuneration policy of Carnegie Corporation Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Economic Entity's financial results. The Board of Carnegie Corporation Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Economic Entity, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members and senior

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executives of the Economic Entity is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Remuneration Committee after seeking professional advice from independent external consultants. All executives receive a base annual salary (which is based on factors such as length of service and experience). The Managing Director, Michael Ottaviano, received a performance based incentive bonus in addition to his annual salary. The Remuneration Committee reviews executive packages annually by reference to the Economic Entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the past year's growth of the Economic Entity's net tangible assets and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

The Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The executive directors determine payments to the non-executive directors and review their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Economic Entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

### ***Performance Based Remuneration***

As part of the Managing Director's remuneration package there was a performance-based component, consisting of key performance indicators (KPIs). The intention of this program was to facilitate goal congruence between directors/executives with that of the business and shareholders.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on performance of the Economic Entity over the past year. Following the assessment, the KPIs were reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency was assessed in relation to the group's goals and shareholder wealth, before the KPIs were set for the following year.

### ***Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration***

The Company finalised the Technology Licence agreement with REH to acquire the rights to the CETO Technology in the Southern Hemisphere during the year. The Company also acquired new solar and wind technologies, and these, along with the Cleaner Coal Power project, has seen an increased focus on research & development activities of the Company which required an increase in ongoing expenditure, without the generation of income until the commercialisation of the technology is achieved in the future. The financial year ended 30 June 2008 results have been impacted by the above and also the issue of share options to executives and senior management. The improvement in the Company's share price and its ability to raise capital to continue its clean technology developments over the last year underlines the potential of all the company's clean energy projects.

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	4,238,436	3,703,052	1,745,596	1,676,077	385,710
Net profit/(loss) after tax	2,506,554	1,537,453	(1,194,282)	(2,943,321)	(18,928,364)
Share price at year-end	0.025	0.032	0.032	0.185	0.215

**CARNEGIE CORPORATION LIMITED**

ABN 69 009 237 736

**AND CONTROLLED ENTITIES**

**Details of Remuneration for Year Ended 30 June 2008**

The remuneration for each director and specified executive of the consolidated entity paid during the year was as follows:

	Salary, Fees & Commissions	Super-annuation Contribution	Cash Bonus	Non-cash Benefits	Cash Expenditure Reimbursement	Options	Total	Performance Related
	\$	\$	\$	\$	\$	\$	\$	
<b>Directors</b>								
<b>Alan Burns</b> – Technical & Administration Services Pty Ltd	199,992	6,750	-	-	227,677	2,257,000	2,691,419	-
<b>Alan Hopkins</b> – Ridgescan Pty Ltd (resigned 19 February 2008)	45,275	3,715	-	-	-	-	48,990	-
<b>Bruce McLeod</b> – Eastern & Pacific Capital Pty Ltd	67,000	5,850	-	-	-	-	72,850	-
<b>Grant Mooney</b> (appointed 19 February 2008)	136,388	2,135	-	-	-	-	138,523	-
<b>Ian Fisher</b> – Notezy Pty Ltd	75,000	5,850	-	-	-	-	80,850	-
<b>Michael Ottaviano</b>	397,231	35,751	320,000*	3,277	-	2,273,960	3,030,219	11%
	<u>920,886</u>	<u>60,051</u>	<u>320,000</u>	<u>3,277</u>	<u>227,677</u>	<u>4,530,960</u>	<u>6,062,851</u>	

\* Amount is unpaid at the date of this report.

**Details of Remuneration for Year Ended 30 June 2007**

	Salary, Fees & Commissions	Super-annuation Contribution	Cash Bonus	Non-cash Benefits	Cash Expenditure Reimbursement	Options	Total	Performance Related
	\$	\$	\$	\$	\$	\$	\$	
<b>Directors</b>								
<b>Alan Burns</b> – Technical & Administration Services Pty Ltd	121,992	-	-	-	27,360	-	149,352	-
<b>Alan Hopkins</b> – Ridgescan Pty Ltd	130,604	-	90,000	-	-	-	220,604	40%
<b>Bruce McLeod</b> – Eastern & Pacific Capital Pty Ltd	50,000	-	-	-	-	-	50,000	-
<b>Ian Fisher</b> – Notezy Pty Ltd	50,000	-	-	-	-	-	50,000	-
<b>Michael Ottaviano</b>	140,961	12,687	87,500	2,547	-	17,751	261,446	33%
	<u>493,557</u>	<u>12,687</u>	<u>177,500</u>	<u>2,547</u>	<u>27,360</u>	<u>17,751</u>	<u>731,402</u>	

**CARNEGIE CORPORATION LIMITED**

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**AND CONTROLLED ENTITIES**

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***Performance Income as a Proportion of Total Remuneration***

The Managing Director, Michael Ottaviano, was the only director and executive to receive a performance based incentive bonus based upon his annual performance set against key performance indicators.

The Remuneration Committee has previously set up these performance based incentive schemes to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the Economic Entity. The Remuneration Committee reviewed the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjusted future years' incentives as they saw fit, to ensure use of the most cost effective and efficient methods.

The Managing Director, Michael Ottaviano, earned a bonus, totalling \$320,000 (payable during the 2008/2009 financial year) based upon his performance as assessed by the Remuneration Committee against KPIs. This amount remains unpaid at the date of this report.

A bonus is determined by the board following recommendation by the Remuneration Committee on an annual basis according to the performance of the Managing Director against these predetermined KPIs.

For the 2007/2008 financial year, the bonus was determined on the following basis:

- 50 % in relation to share price growth over the course of period of determination of the bonus; and
- 50 % in relation to achievement of key milestones periodically determined by the Board of Directors in conjunction with the Remuneration Committee.

***Options Issued as Part of Remuneration for the Year Ended 30 June 2008***

There were 61,366,667 vested options that have been issued to executives during the year. The options are not issued based on performance criteria, but are issued to increase goal congruence between executives and shareholders.

***Employment Contracts Of Directors***

The employment conditions of the Non-Executive Directors, the Chairman, Alan Burns and Managing Director, Michael Ottaviano are formalised in Service Contracts. Alan Burns is also contracted under a fixed three-year contract, the agreement is dated 1 July 2007. The Managing Director, Michael Ottaviano, is also contracted under a fixed three-year contract for \$440,000 per annum plus superannuation and a fully serviced company vehicle.

The employment contracts stipulate three months resignation period. The Company may terminate an employment contract with cause by providing three months written notice or making payment in lieu of notice, based on the individual's annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time. Termination payments are in accordance with Corporation Act 2001.

**NON-AUDIT SERVICES**

The board of directors are satisfied that the external auditors were not engaged for non-audit services during the financial year ended 30 June 2008.

**CARNEGIE CORPORATION LIMITED**

**ABN 69 009 237 736**

**AND CONTROLLED ENTITIES**

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration for the year ended 30 June 2008 has been received and can be found on page 17.

**DIRECTORS' MEETINGS**

There were 6 Directors' meetings held during the financial year ended 30 June 2008. Attendances were as follows:

Director	Number Attended			
	Directors		Audit Committee	Remuneration Committee
	No. Meetings attended	No. Meetings held during time in office		
Alan Robert Burns	6	6	-	-
Dr Michael E Ottaviano	6	6	-	-
Bruce William McLeod	6	6	-	1
Grant Mooney (appointed 19 February 2008)	2	2	1	-
Ian Fisher	6	6	1	1
Alan Gerard Hopkins (resigned 19 February 2008)	4	4	-	-

There were a total of 12 circular resolutions passed by the Board of Directors during the financial year.

Signed on 15 September 2008 in accordance with a resolution of the Board of Directors.



**MICHAEL EDWARD OTTAVIANO**

Managing Director



**IAN CHARLES FISHER**

Director

#### AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Carnegie Corporation Ltd and its Controlled Entities for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit;  
and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

WHK HORWATH PERTH AUDIT PARTNERSHIP



CYRUS PATELL  
Principal

Perth, WA

Dated this 15<sup>th</sup> day of September 2008

**CARNEGIE CORPORATION LIMITED**

**ABN 69 009 237 736**

**AND CONTROLLED ENTITIES**

**INCOME STATEMENT FOR YEAR ENDED 30 JUNE 2008**

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Revenue	2	385,710	1,676,077	385,710	675,340
Employee benefits expense		(768,192)	(172,830)	(768,192)	(172,830)
Depreciation and amortisation expense		(78,099)	(21,589)	(78,099)	(21,589)
Occupancy expense		(252,268)	(77,337)	(252,268)	(77,337)
Cost of current investments disposed net of provision		-	(716,469)	-	(716,469)
Consultancy expenses		(189,997)	(370,311)	(189,997)	(370,311)
Doubtful debt expense		-	-	-	27,084
Research and development expense		(8,979,512)	(899,690)	(8,979,300)	(926,622)
Directors fees		(987,231)	(358,097)	(987,231)	(358,097)
Company secretarial expense		(108,663)	(60,884)	(108,663)	(60,884)
Administration expenses		(699,520)	(513,796)	(699,520)	(513,796)
Share based payment expense		(5,276,145)	(17,751)	(5,276,145)	(17,751)
Impairment of Available for sale financial asset		(993,430)	-	(2,951,755)	-
Share of net loss in associate		(953,246)	(1,005,079)	-	-
Other expenses		(302,355)	(564,997)	(302,355)	(566,623)
Loss before income tax	3	(19,202,948)	(3,102,753)	(20,207,815)	(3,099,885)
Income tax benefit/(expense)	4	274,584	159,432	274,584	181,634
Loss for the year		(18,928,364)	(2,943,321)	(19,933,231)	(2,918,251)
Basic earnings/(loss) per share (cents per share)	7	(4.847)	(1.089)		
Diluted earnings/(loss) per share (cents per share)	7	(4.847)	(1.089)		

**CARNEGIE CORPORATION LIMITED**  
**ABN 69 009 237 736**  
**AND CONTROLLED ENTITIES**

**BALANCE SHEET AS AT 30 JUNE 2008**

	Note	Economic Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>ASSETS</b>					
CURRENT ASSETS					
Cash and cash equivalents	8	6,055,447	714,145	6,055,443	714,141
Trade and other receivables	9	191,761	489,664	191,761	489,664
<b>TOTAL CURRENT ASSETS</b>		<b>6,247,208</b>	<b>1,203,809</b>	<b>6,247,204</b>	<b>1,203,805</b>
NON-CURRENT ASSETS					
Trade and other receivables	9	1,050	1,050	1,050	1,050
Investments accounted for using the equity method	10	-	1,946,676	-	-
Available for sale financial assets	12	1,988,394	1,938,791	1,988,398	7,099,410
Property, plant and equipment	14	906,853	80,398	906,853	80,398
Deferred tax assets	17	288,665	14,081	288,665	14,081
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,184,962</b>	<b>3,980,996</b>	<b>3,184,966</b>	<b>7,194,939</b>
<b>TOTAL ASSETS</b>		<b>9,432,170</b>	<b>5,184,805</b>	<b>9,432,170</b>	<b>8,398,744</b>
<b>LIABILITIES</b>					
CURRENT LIABILITIES					
Trade and other payables	15	1,490,826	221,566	1,490,826	221,566
Short-term provisions	18	161,135	77,650	161,135	77,650
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,651,961</b>	<b>299,216</b>	<b>1,651,961</b>	<b>299,216</b>
NON-CURRENT LIABILITIES					
Long-term provision	18	654,934	6,915	654,934	6,915
Long-term borrowings	16	-	-	7,591,759	7,591,971
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>654,934</b>	<b>6,915</b>	<b>8,246,693</b>	<b>7,598,886</b>
<b>TOTAL LIABILITIES</b>		<b>2,306,895</b>	<b>306,131</b>	<b>9,898,654</b>	<b>7,898,102</b>
<b>NET ASSETS</b>		<b>7,125,275</b>	<b>4,878,674</b>	<b>(466,484)</b>	<b>500,642</b>
<b>EQUITY</b>					
Issued capital	19	31,817,350	15,107,550	31,817,350	15,107,550
Asset revaluation reserve	20	(263,983)	(69,653)	(263,983)	2,139,207
Option reserve	20	4,695,857	36,362	4,695,857	36,362
Accumulated losses		(29,123,949)	(10,195,585)	(36,715,708)	(16,782,477)
<b>TOTAL EQUITY</b>		<b>7,125,275</b>	<b>4,878,674</b>	<b>(466,484)</b>	<b>500,642</b>

**CARNEGIE CORPORATION LIMITED**

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**AND CONTROLLED ENTITIES**

**STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE 2008**

Economic Entity	Note	Share Capital		Asset		Total
		Ordinary	Accumulated Losses	Revaluation Reserve	Option reserve	
<b>Balance at 1.7.2006</b>		13,483,350	(7,252,264)	(622,076)	18,611	5,627,621
Fair value gain on available for sale financial assets		-	-	552,423	-	552,423
Share based payment expense		-	-	-	17,751	17,751
Shares issued net of transaction costs		1,624,200	-	-	-	1,624,200
Loss attributable to members of parent entity		-	(2,943,321)	-	-	(2,943,321)
<b>Balance at 30.6.2007</b>		15,107,550	(10,195,585)	(69,653)	36,362	4,878,674
<b>Balance at 1.7.2007</b>		15,107,550	(10,195,585)	(69,653)	36,362	4,878,674
Fair value loss on available for sale financial assets		-	-	(194,330)	-	(194,330)
Share based payment expense		-	-	-	4,659,495	4,659,495
Shares issued net of transaction costs		16,709,800	-	-	-	16,709,800
Loss attributable to members of parent entity		-	(18,928,364)	-	-	(18,928,364)
<b>Balance at 30.6.2008</b>		31,817,350	(29,123,949)	(263,983)	4,695,857	7,125,275

  

Parent Entity	Note	Share Capital		Asset		Total
		Ordinary	Accumulated Losses	Revaluation Reserve	Option reserve	
<b>Balance at 1.7.2006</b>		13,483,350	(13,864,226)	(622,076)	18,611	(984,341)
Fair value gain on available for sale financial assets		-	-	2,761,283	-	2,761,283
Share based payment expense		-	-	-	17,751	17,751
Shares issued net of transaction costs		1,624,200	-	-	-	1,624,200
Loss attributable to members of parent entity		-	(2,918,251)	-	-	(2,918,251)
<b>Balance at 30.6.2007</b>		15,107,550	(16,782,477)	2,139,207	36,362	500,642
<b>Balance at 1.7.2007</b>		15,107,550	(16,782,477)	2,139,207	36,362	500,642
Fair value loss on available for sale financial assets		-	-	(2,403,190)	-	(2,403,190)
Share based payment expense		-	-	-	4,659,495	4,659,495
Shares issued net of transaction costs		16,709,800	-	-	-	16,709,800
Loss attributable to members of parent entity		-	(19,933,231)	-	-	(19,933,231)
<b>Balance at 30.6.2008</b>		31,817,350	(36,715,708)	(263,983)	4,695,857	(466,484)

**CARNEGIE CORPORATION LIMITED**

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**AND CONTROLLED ENTITIES**

**CASH FLOW STATEMENT FOR YEAR ENDED 30 JUNE 2008**

	Note	Economic Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Interest received		377,633	76,507	377,633	76,507
Payments to suppliers and employees		(1,976,210)	(1,332,214)	(1,976,210)	(1,174,578)
Payments for exploration expenditure		-	(324,205)	-	(324,205)
Payments for research and development		(8,979,512)	(495,530)	(8,979,300)	(495,530)
Proceeds from reimbursement of expenditures		8,078	11,141	8,078	11,141
Receipts from operations		-	219,334	-	219,334
Net cash (used in) operating activities	24a	(10,570,011)	(1,844,967)	(10,569,799)	(1,687,331)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment		(904,554)	(78,307)	(904,554)	(78,307)
Proceeds from sale of property, plant and equipment		-	55,996	-	55,996
Proceeds from sale of investments		-	489,084	-	489,084
Purchase of investments		(243,933)	-	(243,933)	-
Purchase of investment in associate		-	(486,301)	-	(486,301)
Net cash (used in) investing activities		(1,148,487)	(19,528)	(1,148,487)	(19,528)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from Issue of Shares, net of transaction costs		16,709,800	984,200	16,709,800	984,200
Repayment of borrowings		-	-	(212)	-
Proceeds from loans to other entities		350,000	200,000	350,000	200,000
Loan to other entities		-	(350,000)	-	(350,000)
Repayment under Hire Purchase agreement		-	(49,954)	-	(49,954)
Net cash provided by financing activities		17,059,800	784,246	17,059,588	784,246
Net increase in cash held		5,341,302	(1,080,249)	5,341,302	(922,613)
Cash at beginning of financial year		714,145	1,794,394	714,141	1,636,754
Cash at end of financial year	8	6,055,447	714,145	6,055,443	714,141

The accompanying notes form part of these financial statements.

# CARNEGIE CORPORATION LIMITED

ABN 69 009 237 736

## AND CONTROLLED ENTITIES

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the consolidated financial statements and notes of Carnegie Corporation Limited and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Carnegie Corporation Limited as an individual parent entity ('Parent Entity').

#### **Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### **Accounting Policies**

##### **a. Principles of Consolidation**

A controlled entity is any entity Carnegie Corporation Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 13 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the group, are shown separately within the Equity section of the consolidated Balance Sheet and in the consolidated Income Statement.

##### **b. Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

**CARNEGIE CORPORATION LIMITED**

**ABN 69 009 237 736**

**AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**c. Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

**Plant and equipment**

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all fixed assets including capitalised lease assets is depreciated on a straight-line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Plant and equipment	7.5 – 40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**d. Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

**CARNEGIE CORPORATION LIMITED**

**ABN 69 009 237 736**

**AND CONTROLLED ENTITIES**

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**e. Financial Instruments**

*Recognition and Initial Measurement*

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

*Classification and Subsequent Measurement*

*i. Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

*ii. Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

*iii. Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

*Financial Guarantees*

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition. The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**f. Impairment of Assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**g. Investments in Associates**

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised the group's share of post-acquisition reserves in its associates. Details of the economic entity's interest are shown at Note 10 and 11.

**h. Intangibles**

**Research and development**

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

**i. Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

**j. Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

**Equity-settled compensation**

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to the Option Reserve. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

k. **Provisions**

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

l. **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

m. **Revenue**

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

n. **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

o. **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

p. **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**Critical Accounting Estimates and Judgments**

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

*Key Estimates — Impairment*

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**NOTE 2: REVENUE**

	Notes	Economic Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
Operating activities					
Interest received	a	377,632	78,611	377,632	78,611
Reimbursement from research and development activities		8,078	1,851	8,078	1,851
Non-operating activities					
Proceeds on disposal of property, plant and equipment		-	(5,665)	-	(5,665)
Proceeds on disposal of current investments		-	1,601,280	-	600,543
		<u>385,710</u>	<u>1,676,077</u>	<u>385,710</u>	<u>675,340</u>
a. Interest revenue from:					
• directors		-	2,104	-	2,104
• other persons		377,632	76,507	377,632	76,507
Total interest revenue		<u>377,632</u>	<u>78,611</u>	<u>377,632</u>	<u>78,611</u>

**NOTE 3: LOSS FOR THE YEAR**

	Note	Economic Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
a. <b>Expenses</b>					
Impairment of Financial Asset		993,430	-	2,951,755	-
Depreciation of non current assets – property, plant and equipment		78,099	21,589	78,099	21,589
Movement in provision for doubtful debts:					
• wholly-owned subsidiaries		-	-	-	151,213
Net movement in provisions		<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,084)</u>
b. <b>Revenue and net gains</b>					
Net gain on disposal of controlled entity		-	1,112,195	-	111,458
Net gain/(loss) on disposal of investments		-	(227,385)	-	(227,385)

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 4: INCOME TAX EXPENSE

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
a.	The components of tax expense comprise:				
	Current tax	-	-	-	-
	Deferred tax	17	274,584	159,432	274,584
	Recoupment of prior year tax losses	-	-	-	-
		274,584	159,432	274,584	181,634
b.	The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:				
	Prima facie tax payable on profit from ordinary activities before income tax at 30% (2007: 30%)				
	— economic entity	(5,760,884)	(930,826)	-	-
	— parent entity	-	-	(6,062,345)	(929,965)
	Add:				
	Tax effect of:				
	— other non-allowable items	303,188	595,726	17,215	568,908
	— tax losses not recognised	3,860,426	589,769	4,447,860	582,560
	— share options expensed during year	1,397,849	5,325	1,397,849	5,325
	Less:				
	Tax effect of:				
	— capital profits not subject to income tax	-	(414,504)	-	(400,206)
	— Other allowable items	(75,163)	(4,922)	(75,163)	(8,256)
	Recoupment of prior year tax losses not previously brought to account	-	-	-	-
	Income tax attributable to entity	(274,584)	(159,432)	(274,584)	(181,634)

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

- a. **Names and positions held in economic and parent entity by key management personnel in office at any time during the financial year are:**

<b>Key Management Person</b>	<b>Position</b>
Alan R Burns	Chairman
Michael E Ottaviano	Managing Director
Ian C Fisher	Non-executive Director
Bruce W McLeod	Non-executive Director
Grant J Mooney	Non-executive Director (appointed 19 February 2008)
Alan G Hopkins	Non-executive Director (resigned 19 February 2008)

- b. **Compensation Practices**

The Board has established a Remuneration Committee for the purposes of making recommendations to the Company's Board of Directors on remuneration packages and policies applicable to senior executives and the Directors themselves.

The functions of a Remuneration Committee would generally include review of;

- policies for salaried personnel and directors remuneration annually;
- the basis of the calculation for senior executives' and directors' remuneration annually to ensure that it appears reasonable;
- current industry practice and the professional executive recruitment organisations' publications;
- different methods for remunerating senior executives and directors;
- existing or proposed share option schemes;
- superannuation payments;
- retirement and termination payments;
- fringe benefits;
- professional indemnity and liability insurance policies;
- related party transaction disclosure in the financial statements;
- communication with major shareholders and institutional investors to gauge their views on remuneration packages; and
- annual leave policies (and long service leave).

The Remuneration Committee consists of two non-executive Directors, Bruce McLeod and Ian Fisher and Grant Mooney acts as Secretary. All members are considered independent. Access is also available to The Company's auditors and senior managers, and the ability to consult independent experts when necessary.

The Remuneration Committee reports a summary of the findings of each Committee Meeting to the Board of Directors. All Directors receive a copy of the Minutes of the Remuneration Committee meetings.

During the financial year the Remuneration Committee met to undertake a review of all staff and executive management with findings provided to the Board of Directors which were subsequently adopted. Ian Fisher (Non-Executive Director), Bruce McLeod (Non-Executive Director) and Grant Mooney (Company Secretary) were in attendance.

In relation to Non-Executive Directors, there are presently no schemes for retirement benefits, other than statutory superannuation.

The Executive Directors are remunerated based on the provision of consulting services provided to the Company for executive management and for their services as Directors. The Directors fees are determined by the Company in general meeting and other consulting services are remunerated at levels independently agreed by the Remuneration Committee.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)**

The Company seeks to emphasise payment for results through cash reward schemes, specifically upon achievement of milestones from time to time as approved by the Board. Termination payments are in accordance with Corporation Act 2001.

The contract for service between the Company and Technical & Administration Services Pty Ltd, an entity associated with Alan R Burns, is for a thirty-six months term commencing from 1 July 2007. As the Chairman, he receives a salary of \$75,000 per annum. With regards to Mr Burns' consulting services, he receives a fee of \$125,000 per annum (exclusive of GST), provision of a personal assistant on a salary package not exceeding \$70,000 per annum and an allowance for office costs to the value of \$27,360 per annum. Termination payments are in accordance with Corporation Act 2001.

As part of the Managing Director's remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between directors/executives and that of the business and shareholders.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on performance of the Economic Entity over the past financial year. Following the assessment, the KPIs are reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPIs are set for the following year. A bonus of \$320,000 was granted to the Managing Director on 7 July 2008. There has been no alteration to the terms of the bonus paid since grant date.

**c. Key Management Personnel Compensation**

Key Management Person	Short-term Benefits					Post-employment Benefits
	Cash, salary and commissions	Bonus	Superannuation	Non-cash benefit	Other	Superannuation
	\$	\$	\$	\$	\$	\$
<b>2008</b>						
Alan R Burns	199,992	-	6,750	-	2,484,677*	-
Michael E Ottaviano	397,231	320,000	35,751	3,277	2,273,960*	-
Ian C Fisher	75,000	-	5,850	-	-	-
Bruce W McLeod	67,000	-	5,850	-	-	-
Grant J Mooney	27,725	-	2,135	-	108,663	-
Alan G Hopkins	45,275	-	3,715	-	-	-
	<u>812,223</u>	<u>320,000</u>	<u>60,051</u>	<u>3,277</u>	<u>4,867,300</u>	<u>-</u>

\* Issue of incentive options to directors during the year. Valuation based upon Black-Scholes option pricing model. Refer to Note 28.

**2007**

Alan R Burns	121,992	-	-	-	27,360	-
Michael E Ottaviano	140,961	87,500	12,687	2,547	17,751	-
Ian C Fisher	50,000	-	-	-	-	-
Bruce W McLeod	50,000	-	-	-	-	-
Alan G Hopkins	130,604	90,000	-	-	-	-
	<u>493,557</u>	<u>177,500</u>	<u>12,687</u>	<u>2,547</u>	<u>45,111</u>	<u>-</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

**d. Compensation Options**

**Options Granted As Compensation**

	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date	Terms & Conditions for Each Grant		
					Exercise Price	First Exercise Date	Last Exercise Date
<b>Key Management Personnel</b>							
Michael E Ottaviano	1,366,666	1,366,666	23 Jan 2006	1.36 cents	3.3 cents	23 Jan 2006	23 Jan 2009
Michael E Ottaviano	1,366,667	1,366,667	23 Jan 2006	1.29 cents	3.6 cents	23 Jan 2007	23 Jan 2009
Michael E Ottaviano	1,366,667	1,366,667	23 Jan 2006	1.24 cents	3.9 cents	23 Jan 2008	23 Jan 2009
Michael E Ottaviano	10,000,000	10,000,000	9 Nov 2007	9.01 cents	20 cents	9 Nov 2007	9 Nov 2010
Michael E Ottaviano	10,000,000	10,000,000	9 Nov 2007	7.36 cents	30 cents	9 Nov 2007	9 Nov 2010
Michael E Ottaviano	10,000,000	10,000,000	9 Nov 2007	6.20 cents	40 cents	9 Nov 2007	9 Nov 2010
Alan R Burns	10,000,000	10,000,000	9 Nov 2007	9.01 cents	20 cents	9 Nov 2007	9 Nov 2010
Alan R Burns	10,000,000	10,000,000	9 Nov 2007	7.36 cents	30 cents	9 Nov 2007	9 Nov 2010
Alan R Burns	10,000,000	10,000,000	9 Nov 2007	6.20 cents	40 cents	9 Nov 2007	9 Nov 2010
	<u>64,100,000</u>	<u>64,100,000</u>					

All options vest within three years of grant date and expire within one to three years of vesting.

The service and performance criteria set to determine compensation are detailed at Note 5(b) and Note 28.

All options were granted for nil consideration.

**e. Options and Rights Holdings**

**Number of Options Held by Key Management Personnel**

	Balance 1.7.2007	Granted as Compensation	Options Exercised	Net Change Other*	Balance 30.6.2008
Michael E Ottaviano	4,100,000	-	-	30,000,000	34,100,000
Alan R Burns	-	-	-	30,000,000	30,000,000
Total	<u>4,100,000</u>	<u>-</u>	<u>-</u>	<u>60,000,000</u>	<u>64,100,000</u>

\*The Net Change Other reflected above includes those options that have been forfeited by holders as well as options issued during the year under review.

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NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

f. **Shareholdings**

**Number of Shares held by Key Management Personnel**

	<b>Balance 1.7.2007</b>	<b>Received as Compensation</b>	<b>Options Exercised</b>	<b>Net Change Other*</b>	<b>Balance 30.6.2008</b>
Alan R Burns	-	-	-	-	-
Michael E Ottaviano	300,000	-	-	50,000	350,000
Ian C Fisher	1,500,000	-	-	50,000	1,550,000
Bruce W McLeod	200,000	-	-	50,000	250,000
Grant J Mooney	-	-	-	1,694,901	1,694,901
Alan G Hopkins	18,695,334	-	-	(18,695,334)	-
<b>Total</b>	<b>20,695,334</b>	<b>-</b>	<b>-</b>	<b>(16,850,433)</b>	<b>3,844,901</b>

\* Net Change Other refers to shares purchased or sold during the financial year and other change as indicated below.

Amanda Ottaviano, spouse of Michael E Ottaviano, acquired 50,000 shares as part of the Share Purchase Plan in November 2007.

Notezy Pty Ltd, with Ian Fisher as a Director, acquired 50,000 shares as part of the Share Purchase Plan in November 2007.

Eastern & Pacific Capital Pty Ltd, with Bruce McLeod as a Director, acquired 50,000 shares as part of the Share Purchase Plan in November 2007.

Alan G Hopkins resigned from the Board of Directors on the 19<sup>th</sup> February 2008 and therefore is no longer deemed to be key management personnel.

Grant J Mooney was appointed as a Non-executive Director on the 19<sup>th</sup> February 2008 and this displays his Initial Director's Interest.

NOTE 6: AUDITORS' REMUNERATION

	<b>Economic Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Remuneration of the auditor of the parent entity for:				
• auditing or reviewing the financial report	41,505	23,000	41,505	23,000

NOTE 7: EARNINGS PER SHARE

	<b>Economic Entity</b>	
	<b>2008</b>	<b>2007</b>
Basic earnings per share (cents per share)	(4.847)	(1.089)
Diluted earnings per share (cents per share)	(4.847)	(1.089)

(a) Reconciliation of earning to Net Profit/(Loss)

Net Profit/(Loss)

Earnings used in the calculation of basic EPS (18,928,364) (2,943,321)

Earnings used in the calculation of diluted EPS (18,928,364) (2,943,321)

(b) Weighted average number of ordinary shares used in calculation of weighted average earnings per share

390,494,749 270,245,128

The weighted average loss per share is not dilutive as the Group had made a loss during the financial year.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**NOTE 8: CASH AND CASH EQUIVALENTS**

	<b>Economic Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash in hand, at bank and short-term bank deposits	6,055,447	714,145	6,055,443	714,141
	<u>6,055,447</u>	<u>714,145</u>	<u>6,055,443</u>	<u>714,141</u>

**NOTE 9: TRADE AND OTHER RECEIVABLES**

	<b>Economic Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>CURRENT</b>				
Trade receivables	60,586	98,493	60,586	98,493
Other	131,175	391,171	131,175	391,171
	<u>191,761</u>	<u>489,664</u>	<u>191,761</u>	<u>489,664</u>
<b>NON-CURRENT</b>				
Other	1,050	1,050	1,050	1,050
	<u>1,050</u>	<u>1,050</u>	<u>1,050</u>	<u>1,050</u>

**NOTE 10: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

	<b>Note</b>	<b>Economic Entity</b>		<b>Parent Entity</b>	
		<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Associated company	11	-	1,946,676	-	-
		<u>-</u>	<u>1,946,676</u>	<u>-</u>	<u>-</u>

**NOTE 11: ASSOCIATED COMPANY**

**Interest held in the following associated company**

<b>Name</b>	<b>Principal Activities</b>	<b>Country of Incorporation</b>	<b>Shares</b>	<b>Ownership Interest</b>		<b>Carry amount of investment</b>	
				<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
				<b>%</b>	<b>%</b>	<b>\$000</b>	<b>\$000</b>
Listed:							
Carnegie Minerals Plc ("CME")	Mineral Exploration	United Kingdom	Ord	30.09	45.41	-	1,946,676
						<u>-</u>	<u>1,946,676</u>

The investment in CME by the economic entity is no longer considered an associate, as the economic entity has lost any significant influence over the affairs of CME due to the dilution of its ownership interest (while another entity has a greater shareholding of CME's shares) and the economic entity no longer has any representation on the board of CME.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 11: ASSOCIATED COMPANY (CONT'D)

	Note	Economic Entity		Parent Entity	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>a. Movements During the Year in Equity Accounted Investment in Associated Company</b>					
Balance at beginning of the financial year		1,946,676	-	-	-
Add: New investments during the year		-	2,951,755	-	-
Share of associated company's profit after income tax	11b	(953,246)	(1,005,079)	-	-
Less: De-recognition of CME as an Associate (as per AASB 128)		(993,430)	-	-	-
Balance at end of the financial year		-	1,946,676	-	-
<b>b. Equity accounted profits of associate is broken down as follows:</b>					
Share of associate's profit before income tax expense		(953,246)	(1,005,079)	-	-
Share of associate's income tax expense		-	-	-	-
Share of associate's profit after income tax		(953,246)	(1,005,079)	-	-
<b>c. Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associate</b>					
Current assets		-	1,903,893	-	-
Non-current assets		-	2,565,161	-	-
Total assets		-	4,469,054	-	-
Current liabilities		-	179,557	-	-
Non-current liabilities		-	-	-	-
Total liabilities		-	179,557	-	-
Net assets		-	4,289,497	-	-
Revenues		-	81,702	-	-
Profit/(Loss) after income tax of associates		-	(2,213,387)	-	-
<b>d. Ownership interest in Carnegie Minerals Plc at that company's balance date was 30.09% of ordinary shares. The reporting date of Carnegie Minerals Plc is 31 December 2008.</b>					
<b>e. Market value of listed investment in associate</b>		-	5,160,615	-	-

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 12: AVAILABLE FOR SALE FINANCIAL ASSETS

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Available-for-sale financial assets	12a	1,988,394	1,938,791	1,988,398	7,099,410

a. **Available-for-sale Financial Assets Comprise**

Listed investments, at fair value

—	shares in listed corporations	1,975,981	1,926,378	1,975,981	7,086,993
		1,975,981	1,926,378	1,975,981	7,086,993

Unlisted investments, at cost

—	shares in controlled entities	-	-	4	4
—	Provision for impairment	-	-	-	-
—	shares in other corporations	12,413	12,413	12,413	12,413
		12,413	12,413	12,417	12,417

Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturity date attached to these investments.

The fair value of unlisted available-for-sale financial assets cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. As a result, all unlisted investments are reflected at cost.

Please see Note 25c for more information on available-for-sale financial assets.

**Impairment of Financial Asset**

During the period there was an Impairment Loss recognised in the Income Statement and this is separately presented as Impairment of available for sale financial asset. During the year, Carnegie Minerals Plc ("CME"), which is listed on AIM, had its Gambian operations seized by the Gambian Government. CME is working on resolving the expropriation of the joint venture company's mining assets and cancellation of its mining licence by The Gambian Government.

While this process is continuing, the Board of Directors has taken the view that this Financial Asset should be impaired until such time that new information is available in order to re-evaluate the asset.

NOTE 13: CONTROLLED ENTITIES

a. **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)*	
		2008	2007
Subsidiaries of Carnegie Corporation Limited:			
CMA Nominees Pty Ltd	Australia	100	100
New Millenium Engineering Pty Ltd	Australia	100	100
Carnegie Recreational Watercraft Pty Ltd	Australia	100	100

\* Percentage of voting power is in proportion to ownership

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NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	1,092,734	188,180	1,071,830	167,276
Accumulated depreciation	(185,881)	(107,782)	(164,977)	(86,878)
Total plant and equipment	906,853	80,398	906,853	80,398

a. **Movements in Carrying Amounts**

**Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year**

	Plant and Equipment	Leased Plant and Equipment	Total
	\$	\$	\$
<b>Economic Entity:</b>			
Balance at the beginning of year	80,398	-	80,398
Additions	904,554	-	904,554
Disposals	-	-	-
Depreciation expense	(78,099)	-	(78,099)
Carrying amount at the end of year	906,853	-	906,853
<b>Parent Entity:</b>			
Balance at the beginning of year	80,398	-	80,398
Additions	904,554	-	904,554
Disposals	-	-	-
Depreciation expense	(78,099)	-	(78,099)
Carrying amount at the end of year	906,853	-	906,853

NOTE 15: TRADE AND OTHER PAYABLES

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
CURRENT				
Sundry payables and accrued expenses	1,490,826	221,566	1,490,826	221,566

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NOTE 16: BORROWINGS

	<b>Economic Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Other borrowings				
Wholly-owned subsidiaries	-	-	7,591,759	7,591,971

The loan from the wholly owned subsidiary is unsecured, interest free with no fixed repayments terms.

The subsidiary will not be seeking repayment of the outstanding loan amount until such time that the parent entity is in a position to make such repayments.

NOTE 17: TAX

	<b>Economic Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>a. Liabilities</b>				
<b>CURRENT</b>				
Income Tax	-	-	-	-
<b>NON-CURRENT</b>				
Deferred tax liability comprises:				
Revaluation adjustments	(58,299)	20,896	(720,957)	(641,762)
Fair value gain adjustments	-	-	-	-
Future income tax benefits attributable to tax losses	58,299	(20,896)	720,957	641,762
Other	-	-	-	-
<b>Total</b>	-	-	-	-

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 17: TAX (CONT'D)

	Economic Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>b. Assets</b>				
Deferred tax assets comprise:				
Provisions	(257,173)	(6,604)	(257,173)	(6,604)
Accruals	(7,217)	(7,477)	(7,217)	(7,477)
Property, Plant & Equipment	(24,275)	-	(24,275)	-
Investments	-	-	-	-
	<u>(288,665)</u>	<u>(14,081)</u>	<u>(288,665)</u>	<u>(14,081)</u>
<b>c. Reconciliations</b>				
<b>i. Gross Movements</b>				
The overall movement in the deferred tax account is as follows:				
Opening balance	14,081	(145,351)	14,081	(167,553)
(Charge)/credit to income statement	274,584	159,432	274,584	181,634
Net revaluations during the current period	-	-	-	-
Closing balance	<u>288,665</u>	<u>14,081</u>	<u>288,665</u>	<u>14,081</u>
<b>ii. Deferred Tax Assets</b>				
The movement in deferred tax assets for each temporary difference during the year is as follows:				
Provisions				
Opening balance	(6,604)	(13,082)	(6,604)	(13,082)
Credited to the income statement	(250,569)	6,478	(250,569)	6,478
Closing balance	<u>(257,173)</u>	<u>(6,604)</u>	<u>(257,173)</u>	<u>(6,604)</u>
Accruals				
Opening balance	(7,477)	(5,273)	(7,477)	(5,273)
Credited/(charged) to the income statement	260	(2,204)	260	(2,204)
Closing balance	<u>(7,217)</u>	<u>(7,477)</u>	<u>(7,217)</u>	<u>(7,477)</u>
Other				
Opening Balance	-	-	-	-
Credited/(charged) to the income statement	(24,275)	-	(24,275)	-
Closing Balance	<u>(24,275)</u>	<u>-</u>	<u>(24,275)</u>	<u>-</u>

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NOTE 18: PROVISIONS

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Employee benefits:				
Current	161,135	77,650	161,135	77,650
Balance at start of year	77,650	72,581	77,650	72,581
Additional provisions	165,448	272,737	165,448	272,737
Amounts used	(81,963)	(267,668)	(81,963)	(267,668)
Balance at end of year	161,135	77,650	161,135	77,650
Employee benefits:				
Non-Current	654,934	6,915	654,934	6,915
Balance at start of year	6,915	-	6,915	-
Additional provisions	648,019	6,915	648,019	6,915
Amounts used	-	-	-	-
Balance at end of year	654,934	6,915	654,934	6,915

**Provision for Long-term Employee Benefits**

A provision has been recognised for employee entitlements relating to long service leave (LSL) and a long-term employee incentive plan. In calculating the present value of future cash flows in respect of LSL, the probability of LSL being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 of this report. Calculations for the long-term employee incentive plan are in accordance with AASB 2 and is a share-based cash-settled scheme.

NOTE 19: ISSUED CAPITAL

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
453,738,535 (2007: 292,338,535) fully paid ordinary shares	31,817,350	15,107,550	31,817,350	15,107,550
	31,817,350	15,107,550	31,817,350	15,107,550

Ordinary shares have no par value. There is no limit to the authorised share capital of The Company.

	2008	2007	2008	2007
	No.	No.	No.	No.
a. <b>Ordinary shares</b>				
At the beginning of reporting period	292,338,535	235,338,535	292,338,535	235,338,535
Shares issued during the year				
— 4 October 2006	-	20,000,000	-	20,000,000
— 14 December 2006	-	37,000,000	-	37,000,000
— 9 November 2007	151,400,000	-	151,400,000	-
— 21 May 2008	10,000,000	-	10,000,000	-
At reporting date	453,738,535	292,338,535	453,738,535	292,338,535

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On 9 November 2007, the parent entity issued 151,400,000 ordinary shares at \$0.10 to provide funding for the CETO project and provide additional working capital.

On 21 May 2008, the parent entity issued 10,000,000 ordinary shares at \$0.25 to provide funding for the CETO project and provide additional working capital.

**b. Capital Management**

Management controls the capital of the group in order to provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern. The Economic Entity has no debt.

The group's capital is made up of ordinary share capital.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. This includes the management of share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

	Note	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Total borrowings		-	-	7,591,759	7,591,971
Less cash and cash equivalents	8	(6,055,447)	(714,145)	(6,055,443)	(714,141)
Net debt		NA	NA	1,536,316	6,877,830
Total equity		7,125,275	4,878,674	(466,484)	500,642
Total capital		7,125,275	4,878,674	1,069,832	7,378,472
Gearing ratio		NA	NA	144%	93%

**NOTE 20: RESERVES**

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
a. <b>Asset Revaluation Reserve</b> The asset revaluation reserve records fair value gains/losses on available for sale financial assets.	(263,983)	(69,653)	(263,983)	2,139,207
b. <b>Option Reserve</b> The option reserve records items recognised as expenses on valuation of employee share options.	4,695,857	36,362	4,695,857	36,362
<b>Total</b>	4,431,874	(33,291)	4,431,874	2,175,569

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NOTE 21: CAPITAL AND LEASING COMMITMENTS

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) <b>Operating Lease Commitments</b>				
Not later than 1 year	506,038	341,578	506,038	341,578
Later than 1 year but not later than 5 years	1,894,879	1,366,312	1,894,879	1,366,312
Later than 5 years	471,440	341,578	471,440	341,578
	<u>2,872,357</u>	<u>2,049,468</u>	<u>2,872,357</u>	<u>2,049,468</u>

Leasing Commitments consist of property leases for four properties including the Company's head office. They are all non-cancellable leases with the longest lease having an expiring term of 7 years, expiring on 30 September 2014. The Company is currently negotiating a new lease with the FPA for the leasing of the Company's CETO workshop. The parent company will be reimbursed by other companies sharing the leased premises according to floor space used.

NOTE 22: ECONOMIC CONTINGENCY

Technology research and development is a speculative endeavour and no guarantee of results is given. The allocation and requirement for funds is dependent on results from research and development expenditure commitments.

The Company will continue to provide financial support, where possible, to the controlled entities to continue the operations of those entities.

In entering into agreement with REH to operate the CETO wave technology throughout the Southern Hemisphere, Carnegie will be responsible for the development of the technology up to commercialisation. On 21 February 2008, Carnegie announced it had acquired the rights to a solar thermal and an aerofoil wing technology in return for the full funding of these projects up until development.

The Company maintains a prudent approach to research and development and assesses its areas of interest on a regular basis. Decisions are made after an assessment of results to continue research and development, seek farm-out partners or abandon the project.

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**NOTE 23: SEGMENT REPORTING**

The Economic Entity operates in the following industries and geographical segments:

**Business Segments:**

Mineral exploration: Undertaking of mineral exploration and development in Australia and overseas.

Technology: Design and development of new technologies.

**Geographical Segments:**

Australia: Undertaking design and development of new technologies in Perth.

Africa: Exploration, evaluation and processing of The Company's Mineral Sands deposit in The Gambia and exploration in Senegal.

	Mineral Exploration		Technology		Consolidated	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
<b>(a) Business Segments</b>						
Total Revenue outside Economic Entity	-	1,122,852	385,710	553,225	385,710	1,676,077
Segment result	-	463,395	(18,928,364)	(3,406,716)	(18,928,364)	(2,943,321)
Segment assets	-	-	9,432,170	5,184,805	9,432,170	5,184,805
Segment liabilities	-	-	2,306,895	306,131	2,306,895	306,131
Unallocated liabilities	-	-	-	-	-	-
Other						
- asset acquisitions	-	-	904,554	2,024,984	904,554	2,024,984
- depreciation	-	-	78,099	21,589	78,099	21,589

	Australia		Africa		Consolidated	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
<b>(b) Geographical Segments</b>						
Total Revenue outside Economic Entity	385,710	1,676,077	-	-	385,710	1,676,077
Segment result	(18,928,364)	(2,943,321)	-	-	(18,928,364)	(2,943,321)
Segment assets	9,432,170	5,184,805	-	-	9,432,170	5,184,805
Segment liabilities	2,306,895	306,131	-	-	2,306,895	306,131
Unallocated liabilities	-	-	-	-	-	-
Other						
- asset acquisitions	904,554	2,024,984	-	-	904,554	2,024,984
- depreciation	78,099	21,589	-	-	78,099	21,589

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NOTE 24: CASH FLOW INFORMATION

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>a. Reconciliation of Cash Flow from Operations with Profit after Income Tax</b>				
Profit/(loss) after income tax	(18,928,364)	(2,943,321)	(19,933,231)	(2,918,251)
Non-cash flows in profit				
Depreciation	78,099	21,589	78,099	21,589
Net loss on disposal of investments	-	227,385	-	227,385
Net gain on disposal of subsidiary	-	(1,112,195)	-	(111,458)
Loss in share of associate	953,246	1,005,079	-	-
Net loss on foreign exchange	-	1,552	-	1,552
Provision for impairment	-	-	-	-
Share options expensed	5,276,145	17,751	5,276,145	17,751
Interest revenue	-	(2,104)	-	(2,104)
Impairment loss	993,430	-	2,951,755	-
Income tax (benefit)/expense	(274,584)	(159,432)	(274,584)	(181,634)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and term receivables	297,903	(104,702)	297,903	(104,702)
(Increase)/decrease in non-current assets	(350,000)	1,071,794	(350,000)	1,230,904
Increase in trade payables and accruals	1,269,260	119,653	1,269,260	119,653
Increase in provisions	114,854	11,984	114,854	11,984
Cashflow from operations	<u>(10,570,011)</u>	<u>(1,844,967)</u>	<u>(10,569,799)</u>	<u>(1,687,331)</u>

The following items were non-cash transactions;

- On 9 November 2007, the economic entity issued share options to Chairman Alan Burns and Managing Director Michael Ottaviano. A total of 30 million share options each were issued, in three equal tranches with increasing exercise prices of 20 cents, 30 cents and 40 cents as part of the Directors' remuneration packages.
- On 11 January and 21 May 2008, the parent entity announced the issue of employee options via the employee incentive option scheme in order to increase the range of potential incentives available to employees and to strengthen links between the Company and its employees. During the year a total of 4 million options were issued to senior management.

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**NOTE 25: EVENTS AFTER THE BALANCE SHEET DATE**

- a. At the time of completing this report, the parent entity had entered into agreement with the Fremantle Port Authority (FPA) for the leasing of on-shore land and a seabed lease as part of continued development of the CETO project. The leases are for 5 years and expire on 31 December 2012.
- b. On 5 August 2008, the economic entity announced that it had been advised by the Western Australian Government that it was to be the recipient of an exclusive license and option to lease over an area of seabed offshore from Albany for the purposes of capturing wave energy.
- c. On 21 August 2008, the market value in REH, classified as an available-for-sale financial asset has declined from the amount reported on 30 June 2008 being AUD\$1,966,781 to AUD\$1,843,868. This would result in a reduction of Net Assets of \$122,913.
- d. After balance sheet date, the remuneration committee resolved to pay Dr Michael Ottaviano a performance based bonus of \$320,000. This bonus was based upon performance against pre-determined KPIs as assessed by the remuneration committee. The bonus amount is due to be paid during this current financial year.

**NOTE 26: RELATED PARTY TRANSACTIONS**

**(a) Transactions with Director related entities**

- Consultancy, accounting and general management services have been provided by entities associated with A R Burns, A G Hopkins, B W McLeod, Ian Fisher and Grant Mooney during the financial year. These amounts have been included in the disclosures at Note 5. The transactions were undertaken under normal commercial terms.

	<b>2008</b>	<b>2007</b>
	<b>No.</b>	<b>No.</b>
<b>(b) <u>Directors' Shareholdings</u></b>		
Directors and director-related entities hold directly, indirectly or beneficially as at the reporting date the following equity interests in members of the Economic Entity:		
Carnegie Corporation Ltd.		
Ordinary shares (i) (ii) (iii) (iv)	3,844,901	20,695,334
Share options (held by Michael Ottaviano)	34,100,000	2,733,333
Share options (held by Alan Burns)	30,000,000	-

- (i) I Fisher is a Director of Notezy Pty Ltd and therefore is deemed to have interest in 1,550,000 ordinary shares held by Notezy Pty Ltd.
- (ii) B W McLeod is a Director of Eastern & Pacific Capital Pty Ltd and therefore is deemed to have an interest in 250,000 ordinary shares held by Eastern & Pacific Capital Pty Ltd.
- (iii) Dr M E Ottaviano is deemed to have an interest in 350,000 ordinary shares held by his spouse, Amanda Ottaviano.
- (iv) Grant J Mooney is a Director of Mooney & Partners Pty Ltd and therefore is deemed to have an interest in 1,694,901 shares held by Mooney & Partners Pty Ltd.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 27: FINANCIAL RISK MANAGEMENT

a. **Financial Risk Management Policies**

Interest rate risk

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

	Weighted Average Effective Interest Rate  %	Floating Interest Rate  \$	Fixed Interest Rate		Non-interest Bearing \$	Total \$
			Maturing			
			Within year \$	1 to 5 years \$		
<b>30 June 2008:</b>						
Financial assets:						
Cash and cash equivalents	7.54	283,677	5,636,533	150,000	(14,763)	6,055,447
Receivables	-	-	-	-	192,811	192,811
Other financial assets	-	-	-	-	1,988,394	1,988,394
		283,677	5,636,533	150,000	2,166,442	8,236,652
Financial liabilities:						
Accounts payable	-	-	-	-	1,490,826	1,490,826
Interest bearing liabilities	-	-	-	-	-	-
		-	-	-	1,490,826	1,490,826

	Weighted Average Effective Interest Rate  %	Floating Interest Rate  \$	Fixed Interest Rate		Non-interest Bearing \$	Total \$
			Maturing			
			Within year \$	1 to 5 years \$		
<b>30 June 2007:</b>						
Financial assets:						
Cash and cash equivalents	5.88	(36,779)	-	750,924	-	714,145
Receivables	-	-	-	-	490,714	490,714
Other financial assets	-	-	-	-	4,555,294	4,555,294
		(36,779)	-	750,924	5,046,008	5,760,153
Financial liabilities:						
Accounts payable	-	-	-	-	221,566	221,566
Interest bearing liabilities	-	-	-	-	-	-
		-	-	-	221,566	221,566

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 27: FINANCIAL INSTRUMENTS (CONT'D)

(b) **Credit Risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the Balance Sheet and notes to the Balance Sheet.

The economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity.

(c) **Net fair value**

The net fair value and carrying amounts of financial assets and financial liabilities are disclosed in the Balance Sheet and in the notes to the Balance Sheet.

The net fair values of listed investments have been valued at the quoted market bid price at balance date adjusted for transaction costs expected to be incurred. For unlisted investments where there is no organised financial market the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment, where this could not be done, they have been carried at cost. No financial assets or financial liabilities are readily traded on organised markets in standardised form other than investments.

(d) **Sensitivity Analysis**

**Interest Rate Risk**

The group has performed sensitivity analysis relating to its exposure to interest rate risk, at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

*Interest Rate Sensitivity Analysis*

At 30 June 2008, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Change in profit				
— Increase in interest rate by 1%	50,084	13,369	50,084	13,369
— Decrease in interest rate by 1%	(50,084)	(13,369)	(50,084)	(13,369)
Change in Equity				
— Increase in interest rate by 1%	50,084	13,369	50,084	13,369
— Decrease in interest rate by 1%	(50,084)	(13,369)	(50,084)	(13,369)

(e) **Maturity Analysis**

Trade and sundry payables are expected to be paid as followed:

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Less than 30 days	1,490,826	221,566	1,490,826	221,566
	<u>1,490,826</u>	<u>221,566</u>	<u>1,490,826</u>	<u>221,566</u>

**CARNEGIE CORPORATION LIMITED**

**ABN 69 009 237 736**

**AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**NOTE 28: SHARE BASED PAYMENTS**

The following share based payments existed at 30 June 2008:

On 23 January 2006, there were 4,100,000 options issued to Dr Michael Ottaviano. He is entitled to acquire vested share options for \$0.033, \$0.036 and \$0.039 that are exercisable in tranches on 23 January 2006, 23 January 2007 and 23 January 2008 respectively. On 9 November 2007, there were 30,000,000 options issued to Dr Michael Ottaviano and Alan Burns each. The options vest immediately and are separated into 3 tranches of 10,000,000 with varying exercise prices of 20 cents, 30 cents and 40 cents. On 11 January and 21 May 2008, there were 3,000,000 and 1,000,000 employee options issued via the employee incentive option scheme all of which do not vest until 11 January 2010. The options are not issued based on performance criteria, but are issued to increase goal congruence between executives and shareholders.

	<b>Economic Entity</b>		<b>Parent Entity</b>	
	Number of options	Weighted Average Exercise Price \$	Number of options	Weighted Average Exercise Price \$
Outstanding options at 1 July 2007	4,100,000	0.036	4,100,000	0.036
Granted	64,000,000	0.3075	64,100,000	0.3075
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at 30 June 2008	68,100,000	0.2912	68,100,000	0.2912
Exercisable at 30 June 2008	64,100,000	0.2831	64,100,000	0.2831

There were no options exercised during the year ended 30 June 2008. The options outstanding at 30 June 2008 had a weighted average exercise price of \$0.2912 and a weighted average remaining contractual life of 2.25 years. Exercise prices range from \$0.033 to \$0.42 in respect to options outstanding at 30 June 2008.

This price was calculated by using Black Scholes option pricing model applying the following inputs:

	Dr Michael Ottaviano	Dr Michael Ottaviano	Alan Burns	Employee Options
Weighted averaged exercise price \$	0.036	0.30	0.30	0.42
Weighted averaged life of option	3 years	3 years	3 years	1.91 years
Underlying share price \$	0.028	0.17	0.17	0.29, 0.275
Expected share prices volatility	75%	82.1%	82.1%	101%
Risk free rate	5.75%	6.44%	6.44%	6.57%, 6.44%

**CARNEGIE CORPORATION LIMITED**

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**AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**NOTE 29: NEW AUSTRALIAN ACCOUNTING STANDARDS**

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

<b>AASB Amendment</b>	<b>Standards Affected</b>	<b>Outline of Amendment</b>	<b>Application Date of Standard</b>	<b>Application Date for Group</b>
AASB 2007–3 Amendments to Australian Accounting Standards	AASB 5 Non-current Assets Held for Sale and Discontinued Operations AASB 6 Exploration for and Evaluation of Mineral AASB 102 Inventories AASB 107 Cash Flow Statements AASB 119 Employee Benefits AASB 127 Consolidated and Separate Financial Statements AASB 134 Interim Financial Reporting AASB 136 Impairment of Assets	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Operating Segments in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report	1.1.2009	1.7.2009
AASB 8 Operating Segments	AASB 114 Segment Reporting	As above	1.1.2009	1.7.2009
AASB 2007–6 Amendments to Australian Accounting Standards	AASB 1 First time adoption of AIFRS AASB 101 Presentation of Financial Statements AASB 107 Cash Flow Statements AASB 116 Property, Plant and Equipment AASB 138 Intangible Assets	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets.	1.1.2009	1.7.2009
AASB 123 Borrowing Costs	AASB 123 Borrowing Costs	As above	1.1.2009	1.7.2009
AASB 2007–8 Amendments to Australian Accounting Standards	AASB 101 Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income.	1.1.2009	1.7.2009
AASB 101	AASB 101 Presentation of Financial Statements	As above	1.1.2009	1.7.2009

**CARNEGIE CORPORATION LIMITED**

**ABN 69 009 237 736**

**AND CONTROLLED ENTITIES**

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 30: COMPANY DETAILS

The registered office of the company is:

Carnegie Corporation Ltd

1<sup>st</sup> Floor

16 Ord St

WEST PERTH WA 6005

The principal place of business is:

Carnegie Corporation Ltd

1<sup>st</sup> Floor

16 Ord St

WEST PERTH WA 6005

**CARNEGIE CORPORATION LIMITED**

**ABN 69 009 237 736**

**AND CONTROLLED ENTITIES**

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**DIRECTORS' DECLARATION**

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 18 to 49, are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards and the Corporations Regulations 2001; and
  - b. give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the company and economic entity;
2. the Managing Director and Chief Finance Officer have each declared that:
  - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view;
3. in the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



**Michael E Ottaviano**  
Managing Director



**Ian C Fisher**  
Director

Dated this 15<sup>th</sup> day of September 2008

## INDEPENDENT AUDIT REPORT TO MEMBERS OF CARNEGIE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES

We have audited the accompanying financial report of Carnegie Corporation Limited (the company) and Carnegie Corporation Limited and its Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2008 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

### Auditor's Opinion

In our opinion, the financial report of Carnegie Corporation Limited and Carnegie Corporation Limited and its Controlled Entities is in accordance with the Corporations Act 2001 including:

- (a) (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (c) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

WHK HORWATH PERTH AUDIT PARTNERSHIP



CYRUS PATELL  
Principal

Perth, WA  
Dated this 15<sup>th</sup> day of September 2008

*Total Financial Solutions*

### Member Horwath International

WHK Horwath Perth Audit Partnership ABN 96 844 819 235  
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Email [perth@whkhorwath.com.au](mailto:perth@whkhorwath.com.au) [www.whkhorwath.com.au](http://www.whkhorwath.com.au)  
A WHK Group firm

**CARNEGIE CORPORATION LIMITED**

**ABN 69 009 237 736**

**AND CONTROLLED ENTITIES**

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**ADDITIONAL INFORMATION**

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report. The information was prepared based on share registry information processed up to 17 September 2008.

<b>Spread of Holdings</b>		<b>Ordinary Shares</b>
1	- 1,000	74
1,001	- 5,000	738
5,001	- 10,000	662
10,001	- 100,000	2,231
100,001	- and over	553

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Number of Holders 4,258

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Number of shareholders holding less than a marketable parcel: 495

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**SUBSTANTIAL SHAREHOLDERS**

<b>Shareholder Name</b>	<b>Number of Shares</b>
Lindsay & Valerie Baskerville	31,775,000

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**VOTING RIGHTS**

All ordinary shares carry one vote per share without restriction. Options for ordinary shares do not carry any voting rights.

**STATEMENT OF QUOTED SECURITIES**

Listed on the Australian Stock Exchange are 453,738,535 fully paid shares. All ordinary shares carry one vote per share without restriction. Options for ordinary shares do not carry any voting rights.

**COMPANY SECRETARY**

The name of the Company Secretary is Grant Jonathan Mooney.

Mr Mooney is the principal of Perth-based corporate advisory firm Mooney & Partners Pty Ltd, specialising in corporate compliance administration to public companies. Currently, Mr Mooney acts as Company Secretary to several ASX listed companies across a variety of industries including technology, resources and energy and has obtained a depth of experience through his involvement in a diversity of corporate transactions.

He is a member of the Institute of Chartered Accountants in Australia.

**REGISTERED OFFICE**

The registered office is at Level 1, 16 Ord Street, West Perth, WA 6005

The telephone number is (08) 9486 4466

The facsimile number is (08) 9486 4266

**CARNEGIE CORPORATION LIMITED**

**ABN 69 009 237 736**

**AND CONTROLLED ENTITIES**

**ADDITIONAL INFORMATION**

**TWENTY LARGEST HOLDERS OF EACH CLASS OF QUOTED EQUITY SECURITIES**

**ORDINARY FULLY PAID SHARES**

<b>Shareholder Name</b>	<b>Number of Shares</b>	<b>Percentage of Capital</b>
Lindsay & V Baskerville <Baskerville Super Fund A/c>	28,400,000	6.26%
Tethyan Holdings Pty Ltd	15,490,000	3.41%
Brett Armstrong	14,491,000	3.19%
R Technology Ltd	14,116,000	3.11%
Bermuda Farms Pty Ltd	13,150,000	2.90%
Ridgescan Pty Ltd <Alan G Hopkins Super Fund A/c>	11,245,222	2.48%
Peter & MJ Taylor <Good Oil Super Fund A/c>	10,050,000	2.21%
Parkes Holdings Pty Ltd	7,620,000	1.68%
David & JN Hosking	7,100,000	1.56%
ANZ Nominees Ltd <Cash Income A/c>	6,887,678	1.52%
Imperial Investments Pty Ltd	5,733,490	1.26%
Lynsay & Janet Masters <LN & JP Masters Super Fund A/c>	5,227,112	1.15%
Lowline Holdings Pty Ltd <Super Fund No. 1. A/c>	4,960,000	1.09%
Adrienne Bartrop	4,650,000	1.02%
Lindsay & V Baskerville	4,400,000	.97%
Cee Change Holdings Pty Ltd <Bad Clarke Super Fund A/c>	3,395,000	.75%
Grass Ridge Pty Ltd <Kim Clarke Account>	3,365,754	.74%
Sunvest Corporation Ltd	3,250,000	.72%
Bernard Anthony Fahey	3,100,000	.68%
Mikena Pty Ltd <Mikena Pty Ltd Super Fund A/c>	3,050,000	.67%
<b>TOTAL</b>	<b>169,681,256</b>	<b>37.37%</b>

**HOLDERS OF SECURITIES IN AN UNLISTED CLASS**

**OPTIONS**

<b>Optionholder Name</b>	<b>No. Options</b>	<b>Exercise Price</b>	<b>Vesting Date</b>	<b>Exercise Date</b>
Dr Michael Ottaviano	1,366,666	3.3 cents	23 January 2006	9 January 2009
Dr Michael Ottaviano	1,366,667	3.6 cents	23 January 2007	9 January 2009
Dr Michael Ottaviano	1,366,667	3.9 cents	23 January 2008	9 January 2009
Dr Michael Ottaviano	10,000,000	20 cents	9 November 2007	9 November 2010
Dr Michael Ottaviano	10,000,000	30 cents	9 November 2007	9 November 2010
Dr Michael Ottaviano	10,000,000	40 cents	9 November 2007	9 November 2010
Alan Burns	10,000,000	20 cents	9 November 2007	9 November 2010
Alan Burns	10,000,000	30 cents	9 November 2007	9 November 2010
Alan Burns	10,000,000	40 cents	9 November 2007	9 November 2010
Greg Allen	1,000,000	42 cents	11 January 2010	11 January 2011
Dr Laurence Mann	1,000,000	42 cents	11 January 2010	11 January 2011
David Kessel	1,000,000	42 cents	11 January 2010	11 January 2011
Michael Crevola	1,000,000	42 cents	11 January 2010	11 January 2011
	<u>68,100,000</u>			