

ASX Announcement

30th October 2009



Report to Shareholders for the Quarter Ended 30th September 2009

ACTIVITIES SUMMARY

During the quarter, wave energy developer Carnegie Wave Energy Limited (ASX: CWE) has continued to progress the technical and commercial development of its CETO wave energy technology.

1. CETO Wave Energy Technology Development

During the quarter Carnegie continued high cycle testing activities of key CETO 3 components and the sea based Buoyant Actuator testing at its Fremantle Wave Energy Research Facility. Importantly, the functional in-sea performance of the energy relief buoyant actuator has been verified and further functional test work planned ahead of the CETO 3 deployment is underway.

Orders for the majority of the major CETO 3 components for the single unit deployment in the waters to the west of Garden Island, Western Australia have been placed with suppliers. A seismic survey of the seabed has now been conducted to enable the design of the pile foundation to be finalised. The pile foundation will be installed over the coming months and contracts to secure the relevant marine service providers will be finalised once final environmental approvals have been secured.

As previously described, the CETO 3 single unit deployment will consist of a single CETO unit, hydraulic energy dissipation system and instrumentation buoy. The hydraulic system and instrument buoy avoid the requirement for a physical connection to shore for the initial single unit installation.

2. CETO Wave Energy Commercial Opportunities

Carnegie continued to progress a number of commercial opportunities for CETO wave energy during the quarter:

- confirmation the location of the preferred site of the its small scale commercial demonstration project as the waters to the west of Garden Island, Western Australia. The project has a commitment from the Western Australian State Government to provide \$12.5m of funding from the State's Low Emissions Energy Development ("LEED") fund for the project. Site development and design activities for the project are now progressing. For the past 12 months, Carnegie has been undertaking feasibility studies on potential wave project sites around Western Australia in the mid-west, south-west and metropolitan regions under its wave energy investigation licenses covering waters throughout the State. The investigations have been conducted in conjunction with independent technical experts Arup, Atteris, RPS MetOcean and GHD.

The site, in the waters to the West of Garden Island near Perth and Rockingham, was selected due to its optimum combination of a range of technical and economic factors including wave resource characteristics, environmental factors, pipeline route options, grid connectivity, water depth, scale of plant and deployment and servicing logistics. Subject to the receipt of all approvals, the small scale commercial demonstration project will be a 5MW project, generating sufficient power for around 3,500 households. The Project is forecast to create 30 jobs and save over 500,000 tonnes in greenhouse gas emissions over the life of the project.

- the Commonwealth of Australia, via the Department of Defence (DoD), commissioning Carnegie to assess the feasibility of utilising the CETO wave energy technology to supply power to the Defence Communications Station Harold E Holt (HEH) at Exmouth in the North West of Western Australia. The feasibility assessment will look at factors including wave resource, environmental values, geotechnical and geophysical conditions and connectivity to the remote HEH power system. This engagement represents an opportunity to assess the viability of CETO wave energy technology to provide power into a remote isolated power system.
- further to Carnegie's previous update, feasibility activities across Carnegie's other potential wave energy project sites at Portland, Warrnambool and Phillip Island are expected to be announced next Quarter.
- with the CETO Intellectual Property Acquisition now largely complete, Carnegie is performing an assessment of its global CETO project sites pipeline with the intent to initially progress only the most prospective of those sites to ensure that these developments are well resourced and with focused efforts. An update on the planned global CETO site activities will be provided during the December quarter. In July, the Company announced the award of €3M in French Government funding for a demonstration project study on Reunion Island, to be led by CETO Joint Venture licensee EDF EN and a CAD\$2m grant through British Columbia's Innovative Clean Energy (ICE) fund to develop a wave energy project off Ucluelet.

3. Corporate Activities

Carnegie executed the CETO Technology Acquisition Agreement. The acquisition of the CETO Technology and Global development rights will be completed upon execution of the Carnegie/EDF EN Collaboration Agreement covering project development between the two companies in the Northern Hemisphere, expected by early November.

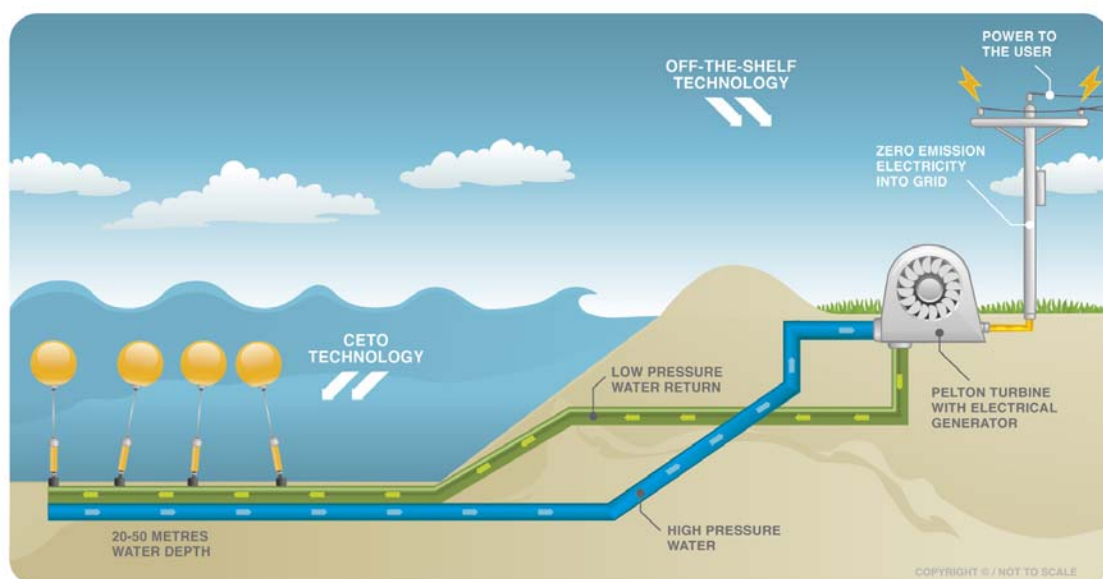
The signing of this Agreement followed the overwhelming shareholder approval of this transaction at a General Meeting during the Quarter and the Independent Expert's Report deeming the CETO acquisition fair and reasonable. The transaction simplifies the CETO ownership structure and allows Carnegie for the first time to have 100% ownership of CETO. The final step in the transaction is the signing of the Northern Hemisphere License Collaboration Agreement with EDF EN.

The Company also announced that the Board of Carnegie appointed Mr Grant Mooney as the Company's non-executive Chairman upon the retirement of Mr Alan Burns as a director and Chairman of Carnegie. The Board thanked Alan for his outstanding contribution over the years.

About CETO

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

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



CETO Technology characteristics include:

- CETO converts wave energy into zero-emission electricity and desalinated water
- CETO is environmentally friendly, has no visual impact and attracts marine life
- CETO is fully submerged in deep water away from popular surf breaks and safe from storms.

About Carnegie

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

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Appendix 4C

Quarterly report for entities admitted on the basis of commitments

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

Name of entity

CARNEGIE WAVE ENERGY LIMITED

ABN

69 009 237 736

Quarter ended ("current quarter")

30 September 2009

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 1.1 Receipts from customers | - | - |
| 1.2 Payments for | | |
| (a) staff costs | (910) | (910) |
| (b) advertising and marketing | (22) | (22) |
| (c) research and development | (468) | (468) |
| (d) leased assets | - | - |
| (e) other working capital | (752) | (752) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 58 | 58 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Other (provide details if material) | - | - |
| Net operating cash flows | (2,094) | (2,094) |

+ See chapter 19 for defined terms.

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

| | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|--|----------------------------|---------------------------------------|
| 1.8 Net operating cash flows (carried forward) | (2,094) | (2,094) |
| Cash flows related to investing activities | | |
| 1.9 Payment for acquisition of: | - | - |
| (a) businesses (item 5) | - | - |
| (b) equity investments | - | - |
| (c) intellectual property | - | - |
| (d) physical non-current assets | (3) | (3) |
| (e) other non-current assets | - | - |
| 1.10 Proceeds from disposal of: | - | - |
| (a) businesses (item 5) | - | - |
| (b) equity investments | - | - |
| (c) intellectual property | - | - |
| (d) physical non-current assets | - | - |
| (e) other non-current assets | - | - |
| 1.11 Loans to other entities | - | - |
| 1.12 Loans repaid by other entities | - | - |
| 1.13 Other (provide details if material) | - | - |
| | (3) | (3) |
| Net investing cash flows | | |
| 1.14 Total operating and investing cash flows | (2,097) | (2,097) |
| Cash flows related to financing activities | | |
| 1.15 Proceeds from issues of shares, options, etc. | - | - |
| 1.16 Proceeds from sale of forfeited shares | - | - |
| 1.17 Proceeds from borrowings | - | - |
| 1.18 Repayment of borrowings | - | - |
| 1.19 Dividends paid | - | - |
| 1.20 Other (provide details if material) | - | - |
| Net financing cash flows | - | - |
| Net increase (decrease) in cash held | (2,097) | (2,097) |
| 1.21 Cash at beginning of quarter/year to date | 5,799 | 5,799 |
| 1.22 Exchange rate adjustments to item 1.20 | - | - |
| 1.23 Cash at end of quarter | 3,702 | 3,702 |

Note to Cashflow in relation to Receivables due from Renewable Energy Holdings plc

At the end of the quarter, Renewable Energy Holdings plc (“REH”) owed the Company amounts totalling approximately \$1.7 million in accordance with the existing agreements between REH and Carnegie whereby Carnegie is acquiring the CETO global development rights and intellectual property from REH in exchange for 235 million shares in Carnegie. A condition of this transaction was that REH continued to fund the development of the CETO technology until execution of the Technology Acquisition Agreement which was executed subsequent to the end of the quarter.

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

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

| | | Current quarter \$A'000 |
|------|---|----------------------------|
| 1.24 | Aggregate amount of payments to the parties included in item 1.2 <i>(inclusive of suspended salary payments and entitlements from prior periods)</i> | 1,024 |
| 1.25 | Aggregate amount of loans to the parties included in item 1.11 | - |
| 1.26 | <p>Explanation necessary for an understanding of the transactions</p> <div style="border: 1px solid black; padding: 5px;"> <p>Payments to Directors are consulting fees, bonuses, salary and superannuation. These amounts are inclusive of suspended salary payments and entitlements from prior periods.</p> </div> | |

Non-cash financing and investing activities

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

Nil

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

Nil

Financing facilities available

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

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

+ See chapter 19 for defined terms.

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

Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | Current quarter \$A'000 | Previous quarter \$A'000 |
|---|----------------------------|-----------------------------|
| 4.1 Cash on hand and at bank | 114 | 599 |
| 4.2 Deposits at call | 3,221 | 4,850 |
| 4.3 Bank overdraft | - | - |
| 4.4 Other (provide details) – <i>Guarantee facilities</i> | 367 | 350 |
| Total: cash at end of quarter (item 1.23) | 3,702 | 5,799 |

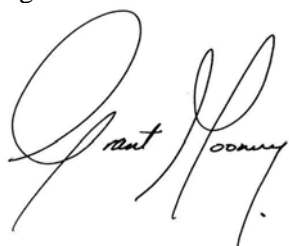
Acquisitions and disposals of business entities

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

Compliance statement

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

Sign here:



Print name: GRANT J. MOONEY Company Secretary

Date: 30 October 2009

+ See chapter 19 for defined terms.

Notes

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

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