

ASX Announcement

29th January 2010



Report to Shareholders for the Quarter Ended 31th December 2009

ACTIVITIES SUMMARY

During the quarter, wave energy developer Carnegie Wave Energy Limited (ASX: CWE) commenced offshore installation activities for its Perth Wave Energy Project and continued to progress the development of its CETO wave energy technology. The Company also completed a successful capital raising.

1. CETO Wave Energy Technology Development

During the quarter Carnegie deployed a scale CETO 3 unit at its Fremantle Wave Energy Research Facility. Importantly, the functional performance of this CETO 3 device has been designed to mimic the full scale CETO 3 unit scheduled for deployment off Garden Island later in 2010. The deployment comprised a full suite of instrumentation, control and hydraulic equipment and Carnegie's unique energy relief buoyant actuator (ERBA). The objective of the deployment was to provide operational design information for the full scale unit deployment. The deployment provided consistent data through a range of sea states over a number of weeks.



CETO unit foundation installation off Garden Island, Western Australia (January, 2010)

High cycle test activities of key CETO 3 components have continued throughout the quarter with cycles on some key components now exceeding 5 million cycles or the equivalent of multiple years of real operation. This high cycle test work is providing invaluable service life performance data to verify the expected performance of the full scale system.

Final design for the major CETO 3 components for the single unit deployment in the waters to the west of Garden Island, Western Australia are now well advanced. Manufacture of CETO 3 components is also advancing well. The major works associated with the foundation installation for the full scale deployment are now complete with the jack up rig (JUP), pictured above on site to the west of Garden Island, now off site. Final completion works on the foundation are now underway.

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:

- On 18 January 2010 the Western Australian Minister for Energy the Honourable Peter Collier officially launched the Perth Wave Energy Project at Carnegie's Wave Energy Research Facility in Fremantle, 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. Stage one of the project, which has already commenced, involves the deployment of a single stand-alone commercial scale CETO unit off Garden Island in 2010. The deployed system will consist of the mooring, a CETO unit and a data telemetry buoy. Deployment of the CETO unit will be for an initial period of up to 12 months involving periodic inspection and maintenance of components. This will be the first commercial scale wave energy unit to be deployed in Australia.
- During the quarter Carnegie completed a study for the Commonwealth of Australia, via the Department of Defence (DoD), 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 looked at a variety of factors including wave resource, environmental values, geotechnical and geophysical conditions and connectivity to the remote HEH power system.

- On 7 December 2009 Carnegie advised that it had executed a deed of licence with the State of Western Australian Government for access to a designated area of seabed in waters to the west of Garden Island off Perth, Western Australia. Carnegie had been working with the Department of Regional Development and Lands (DRDL) who manage Crown Land in Western Australia, along with other State Government Departments, to process Carnegie's license application over a number of months. Execution of the licence provided Carnegie with permission, subject to specific covenants, to install and operate a commercial scale, autonomous CETO wave energy device to verify its energy delivery performance for a period of up to 3 years.

3. Corporate Activities

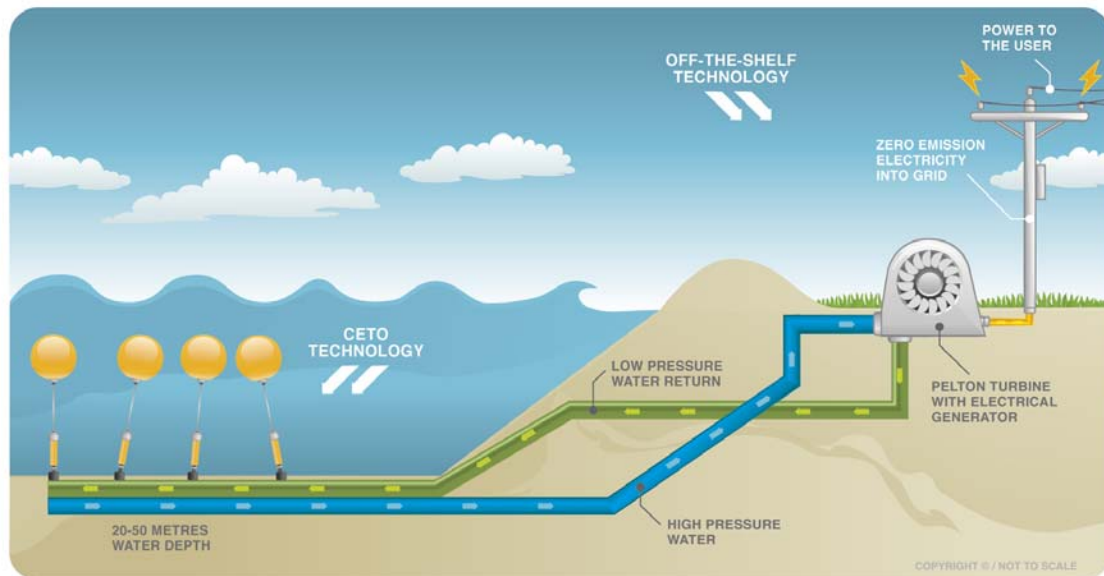
Carnegie executed the formal CETO Collaboration and Licensing Agreement with Northern Hemisphere Development partner EDF EN. The signing of the license was the final step in the purchase process of the CETO intellectual property and global development rights by Carnegie paving the way for joint development of commercial CETO projects throughout the Northern Hemisphere and Reunion Island. Carnegie retains the right to own up to 49% of each project and each project will pay Carnegie a license fee for the use of the CETO technology.

During the Quarter Carnegie was pleased to complete a \$8.9m capital raise. This consisted of heavily oversubscribed Share Purchase Plan ("SPP") that raised \$5.4 million and a \$3.5 million Share Placement to mostly European, American and Australian institutions. Carnegie had previously announced that it anticipated raising up to \$2.5 million through its SPP however, Carnegie's Board of Directors decided to accept over subscriptions to allow all subscribing investors to participate. Funds raised from the Placement and the SPP will be applied towards deployment and testing of commercial-scale CETO Wave Energy units in the waters off Perth, Western Australia, as well as international site development activities and for general working capital requirements.

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 where it is safer 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")

31 December 2009

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) staff costs	(510)	(1,420)
(b) advertising and marketing	(17)	(39)
(c) research and development	(1,894)	(2,298)
(d) leased assets	-	-
(e) other working capital	(366)	(1,118)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	24	82
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material) – Green Heat Exchanger Government Grant	64	64
Net operating cash flows	(2,699)	(4,793)

+ See chapter 19 for defined terms.

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

	Current quarter \$A'000	Year to date (6 months) \$A'000
1.8 Net operating cash flows (carried forward)	(2,699)	(4,793)
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	(9)	(12)
(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	2	2
(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)	-	-
	(7)	(10)
Net investing cash flows		
1.14 Total operating and investing cash flows	(2,706)	(4,803)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc (net of costs)	8,319	8,319
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	8,319	8,319
Net increase (decrease) in cash held	5,613	3,516
1.21 Cash at beginning of quarter/year to date	3,702	5,799
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 Cash at end of quarter	9,315	9,315

+ 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>	255
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Payments to Directors are consulting fees, salary and superannuation.

Non-cash financing and investing activities

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

During the quarter Carnegie finalised the Technology Acquisition Agreement (“TAA”) with REH Plc (“REH”). As a result of the TAA, Carnegie acquired the worldwide rights to the CETO Intellectual Property along including the rights and obligations associated with the collaboration agreement with the Northern Hemisphere licensee, EDF EN. In consideration for the acquisition, Carnegie issued 232.6 million fully paid to REH Plc with 2.4 million shares still to be issued to EDF EN. The deemed price for these shares are 23.82 cents each. REH Plc is Carnegie’s largest shareholder with approximately 30% of the issued capital.

As per ASX announcement on 11 May 2009, REH was obligated to continue to reimburse Carnegie’s CETO R&D spend and associated costs from 1 February 2009, through until the completion of the CETO IP acquisition. An amount of approximately \$1.3m is reimbursable by Renewable Energy Holdings plc and remains outstanding as at the date of this report.

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	5,048	114
4.2 Deposits at call	3,900	3,221
4.3 Bank overdraft	-	-
4.4 Other (provide details) – <i>Guarantee facilities</i>	367	367
Total: cash at end of quarter (item 1.23)	9,315	3,702

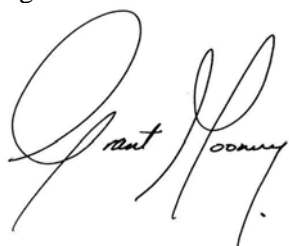
Acquisitions and disposals of business entities

	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: 29 January 2010

+ 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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