

ASX Announcement

30th July 2010

Report to Shareholders for the Quarter Ended 30th June 2010

ACTIVITIES SUMMARY

Carnegie Wave Energy Limited (ASX: CWE) has made further progress on the delivery of its commercial scale demonstration with design, procurement and testing of its CETO wave energy technology at Fremantle and off Garden Island in Western Australia. Project initiatives relating to both the power and water potential have also been progressed including, the announcement of a joint seawater desalination project with the National Centre of Excellence in Desalination (NCED) at Rockingham in Western Australia and a joint venture project with EDF-EN on La Réunion Island.

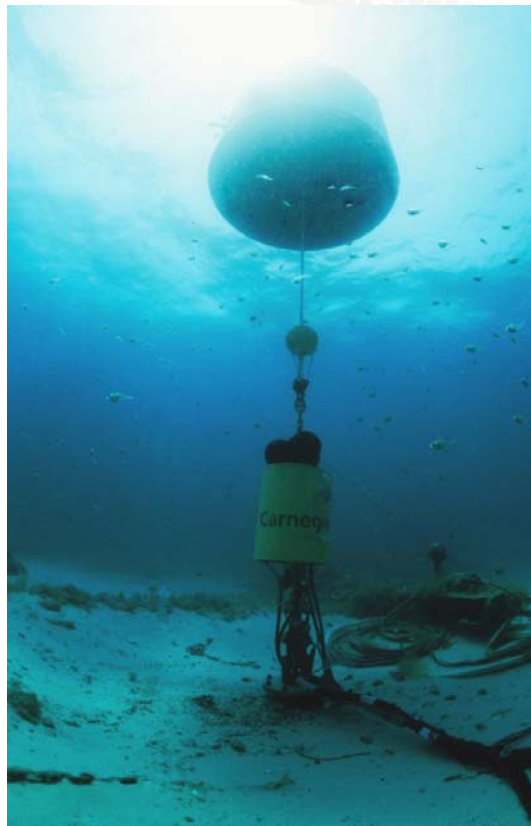
1. CETO Wave Energy Technology Development

The CETO 3 single unit deployment and testing will consist of an autonomous CETO unit, hydraulic energy dissipation system and instrumentation buoy. The hydraulic system and instrument buoy avoids, in the first instance, the investment required for a physical connection to shore for the initial single unit installation. The CETO 3 deployment and testing activities are on track to be completed in 2010 as scheduled.

Key installation planning activities have now commenced to ensure necessary offshore equipment and service providers are secured and that all necessary permits and approvals are in place. The planning includes arrangements for resources and equipment such as deployment vessels, lift equipment, installation aids and specialised tooling and dive support, as well as for the engagement of a specialised offshore engineering and project management group.

Manufacture of the CETO 3 components for the Garden Island single unit deployment has continued in line with the project schedule throughout the quarter. A key component of the system, the pump, is under manufacture by Douce Hydro SAS a specialist hydraulic cylinder manufacturer based in Albert, France.

Further in-sea functional performance testing of the scaled CETO 3 system offshore at Fremantle has been completed to provide additional operation set point data for the full scale Garden Island deployment. Pictured below the scaled CETO 3 system closely mimics the full scale system to ensure its functional performance is representative of the full scale system.



Scale CETO 3 System Deployed at Fremantle

2. CETO Desalination Technology

As previously reported, whilst Carnegie is focused on the commercial demonstration of power production of CETO, work has now commenced on commercialising the Technology's ability to produce zero-emission desalinated freshwater. Standard reverse osmosis (R/O) desalination plants have large power requirements and therefore energy costs and greenhouse gas emissions associated with their water production. CETO is able to be utilised to overcome these issues.

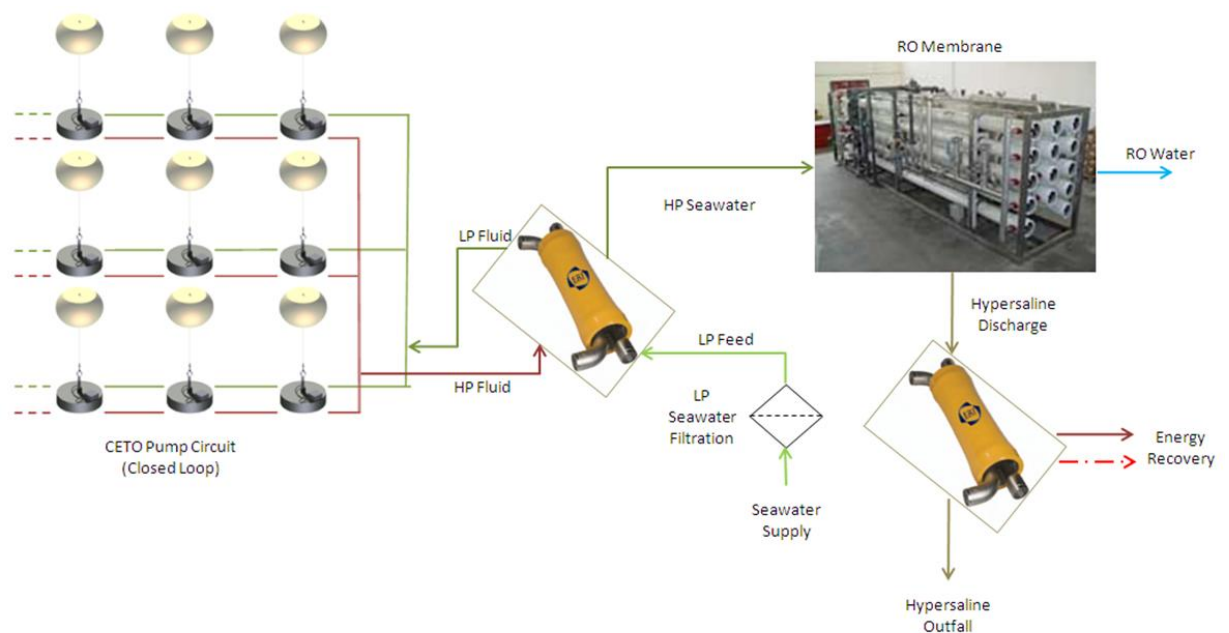
On 26 July 2010 Carnegie advised that its project application to the National Centre of Excellence in Desalination ("NCED") based in Western Australia was announced as being successful. The Project, entitled 'Application of CETO Wave Energy Technology to the Direct Desalination of Seawater', will evaluate the integration of proven off-the-shelf desalination technologies with the CETO technology to produce emission-free desalinated freshwater.

The Project brings together an important mix of academic expertise through Murdoch University (Perth, Australia), NCED and water industry specialists both local and international. The Project is an important and timely stepping stone to enable the commercial rollout of CETO technology to include the production of emission-free freshwater.

The Project will be based at NCED headquarters at Rockingham, south of Perth, and will benefit from the close geographical proximity to Carnegie's Perth Wave Energy Project site off nearby Garden Island and access to Carnegie's Fremantle test facility. The

NCED leads and coordinates Australia's research in desalination technology and is funded with \$20m in Government funding and \$5 million in WA State Government funding.

The conceptual image below explains how the hydraulic energy generated by the CETO pumping system can be used to drive a pre-treated seawater stream at high pressure into the reverse osmosis system by utilising proven pressure transfer technology.



3. CETO Wave Energy Commercial Opportunities

During the quarter, Carnegie continued to progress the commercial aspects of its Perth Wave Energy Project as well as a number of Australian and international commercial opportunities for its CETO wave technology:

- In June 2010, Carnegie announced a significant milestone in relation to its international project site development activities with the signing of a Memorandum of Understanding (MoU) with its Northern Hemisphere joint venture partner EDF EN and French marine defence contractor DCNS. The MoU, signed in Paris, outlines the first international wave power project to be on the French overseas territory of Réunion Island. The project, which will be jointly owned and financed by Carnegie (49%) and EDF EN (51%) via a special purpose vehicle (SPV), will be built out in three stages and is currently planned to have an ultimate capacity of 15MW. The Réunion Island Project will initially consist of the deployment of a single, autonomous unit in the next 12 months (stage 1) which will be followed a 2MW plant and a further expansion of the project to a nominal 15MW. The project will receive a feed-in tariff and Stage 1 of the project will receive around 75% of its funding in Government grants. Upon successful completion of Stage 1, further Government grant support will be sought to assist with the project expansions. The MoU also includes DCNS' role in engineering, procurement, construction and management (EPCM) of the project. DCNS will charge preferential rates to the SPV and in return will have a

right of first refusal on a similar role for 5 years for projects in the Northern Hemisphere.

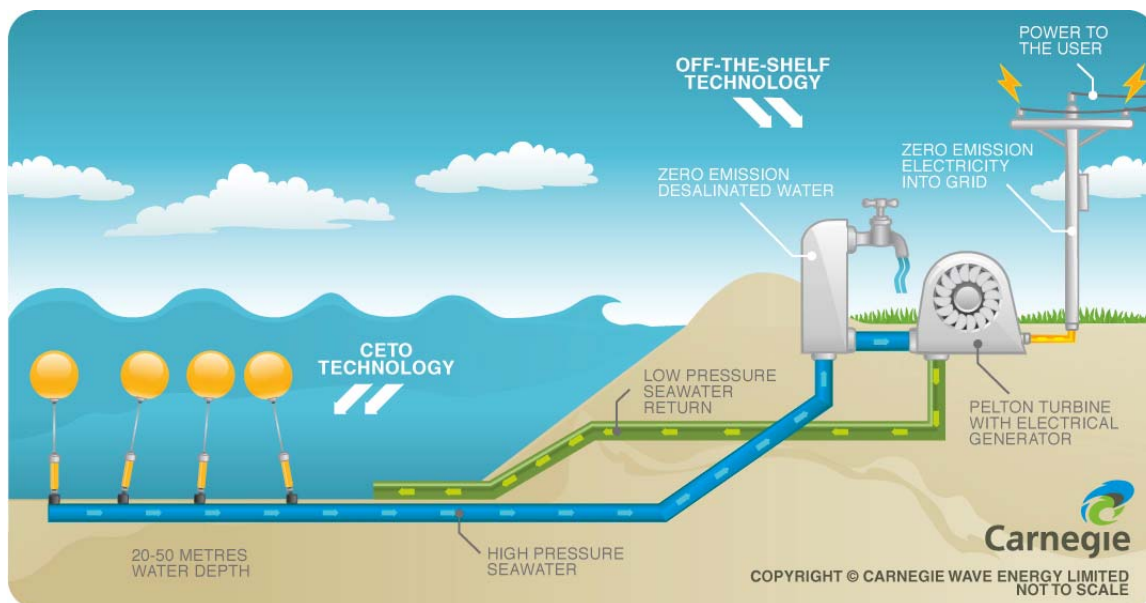
- Carnegie secured further commercial sites in Australia with the signing of a seabed licence covering three sites in Victoria in May 2010. Carnegie announced it had been granted an investigation licence and option to lease from the Victorian Government for three potential wave energy sites off Victoria at Portland, Warrnambool and Phillip Island. Tenure was awarded by the Victorian Minister for Environment and Climate Change to explore the potential for wave energy at the three offshore sites with a view to developing a commercial demonstration facility in Victoria. Signing of the licence was the result of Carnegie working consistently with the Victorian Government since 2008 to secure seabed tenure and will now be progressing site investigations.

Carnegie continues to actively pursue other international site development opportunities in Europe and America, typically where high feed-in tariff pricing and Government grants are available for wave energy projects. These activities remain confidential at present. Carnegie will provide an update once these details are available for public discussion.

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")

30 June 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) staff costs	(320)	(2,177)
(b) advertising and marketing	(32)	(92)
(c) research and development	(1,363)	(5,198)
(d) leased assets	-	-
(e) other working capital	(562)	(2,232)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	125	261
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
1.8 Other (provide details if material) – WA LEED Grant for Milestone 1	-	725
Net operating cash flows	(2,152)	(8,649)

+ 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 (12 months) \$A'000
1.8 Net operating cash flows (carried forward)	(2,152)	(8,649)
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	(11)	(23)
(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
(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)	-	-
	(11)	(21)
Net investing cash flows		
1.14 Total operating and investing cash flows	(2,163)	(8,670)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc (net of costs)	-	8,717
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)	-	-
	-	8,717
Net financing cash flows		
Net increase (decrease) in cash held	(2,163)	47
1.21 Cash at beginning of quarter/year to date	8,009	5,799
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 Cash at end of quarter	5,846	5,846

+ 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>	232
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, salary and superannuation.</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

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. The Technology Acquisition Agreement ("TAA") was finalised with REH Plc in the December 2009 quarter. An amount of approximately \$1.6m 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	473	604
4.2 Deposits at call	5,006	7,038
4.3 Bank overdraft	-	-
4.4 Other (provide details) – <i>Guarantee facilities</i>	367	367
Total: cash at end of quarter (item 1.23)	5,846	8,009

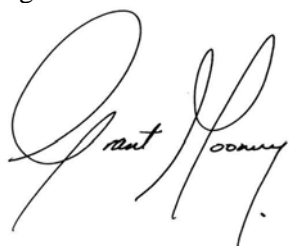
Acquisitions and disposals of business entities

	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 July 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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