



2014

Annual Report

Carnegie Wave Energy Limited ABN 69 009 237 736


Carnegie
wave energy

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12 Months of Achievements

- » Completion of manufacture of all components and successful onshore system integration testing for the Perth Wave Energy Project.
- » CETO Desalination Pilot Plant commissioned, ready for connection to the Perth Wave Energy Project.
- » Received \$15m cash grant payments from the Australian Federal and Western Australian Governments for the Perth Wave Energy Project.
- » Completed a \$9m capital raise from institutional, sophisticated and retail shareholders and a \$4m convertible note capital raise to support the CETO 6 Project design and development.
- » Federal Minister for Industry the Hon. Ian Macfarlane and ARENA CEO Ivor Frischknecht officially unveiled the Perth Wave Energy Project Buoyant Actuators at BAE Systems, Henderson.
- » A new \$11m Australian Government Grant awarded to Carnegie for the CETO 6 Project at Garden Island, Western Australia.
- » \$20m five year loan facility signed with the Australian Clean Energy Finance Corporation (CEFC) for CETO 6.
- » Awarded a site at the Government funded Wave Hub in the UK for an up to 10MW CETO project.
- » Granted EU funding from MARINET's Transnational Access initiative to support wave tank testing and validation of CETO 6 in Scotland.
- » UK Natural Environment Research Council funding awarded for part funding of a project with Scottish Association for Marine Science.
- » Collaboration agreements signed with AIM-listed tidal developer Atlantis Resources, European equipment supplier Bosch Rexroth and UK wave developer Aquamarine Power aimed at reducing the cost of marine energy.
- » \$1.3m Government funded, CSIRO and Carnegie, joint national wave resource modelling and monitoring project commenced and centred on the Perth Wave Energy Project.
- » Received a \$2.6m Research & Development Tax incentive cash refund.
- » Received \$1.6m cash Royalty Payments from our legacy gold royalty.
- » Continued conference participation internationally including Renewable UK Wave & Tidal, WA Power & Gas, All Energy Aberdeen & Australia, Australian Industry and Defence Network, Environmental Interactions of Marine Renewables and European Wave & Tidal Energy.

Chairman & Managing Director's Report

Dear Shareholder,

On behalf of the Board of Directors, it gives us great pleasure to present to you Carnegie Wave Energy's 2014 Annual Report.

The past 12 months has again seen your Company make substantial progress in commercialising its proprietary CETO wave energy technology, primarily through the construction and pre-commissioning of our flagship demonstrator, the Perth Wave Energy Project, at Garden Island in Western Australia.

The construction of the Perth Wave Energy Project has seen Carnegie not only keep step with progressions in wave energy technology development globally, but has also positioned Carnegie to be the first technology to commission a project of this scale with an offtake arrangement for power and desalinated water production and capacity to grid connect. This time last year, Carnegie had secured funding and approvals for the Project and had large committed contracts with major suppliers for the key work elements of the Project. The power and water offtaker for the Project, the Australian Department of Defence, had also just handed over the onshore site on Garden Island in anticipation of the start of construction.

Since then, we are delighted to say that manufacturing and construction of the Project is now essentially complete. It is an outstanding effort to successfully transform our designs to reality via the delivery of more than \$30million of construction and development activity within a 12 month period. This work has included the manufacture and installation of the 3 offshore unit foundations, the installation of 6 kilometres of high pressure piping offshore, the construction onshore of the power and desalination plants, the design and manufacture of the bespoke instrumentation and control system, the manufacture of the 3 subsea hydraulic pods and of course the manufacture of the three CETO 5 units themselves including Buoyant Actuators, Pumps, Tethers and Connectors.

At the time of this report going to print the final stages of the unit assembly and integration testing are completing ahead of offshore unit deployment. The system in total will have around 500 sensors measuring and recording in real time and generating some 5000 Mega Bytes of data daily. This is the primary value of the Perth Wave Energy Project as it allows the validation of Carnegie's proprietary hydrodynamic, kinematic and hydraulic computational models and will provide, for the first time, an understanding of the interaction of multiple CETO units operating in an array. Once validated, these models can then be used to finalise the design of the next generation, CETO 6 unit.

During the year, we also made significant progress on the CETO 6 project including the release of the CETO 6 conceptual design, the securing of a berth at the largest wave energy demonstration site in the world, Wave Hub, in Cornwall, UK, and the decision to progress with our first CETO 6 project site slightly further offshore from the current Perth Project site at Garden Island. This last decision was precipitated by Carnegie being awarded and \$11million grant from the Australian Renewable Energy Agency (ARENA) and Carnegie securing a further \$20million in debt facility from the Clean Energy Finance Corporation. In addition, Carnegie completed a Share Purchase Plan, convertible note and share placement which enabled a further \$13.4million in capital to be raised from our shareholders.

We would like to thank the whole Carnegie team for an exceptional year of hard work and great progress. We would also like to thank you, our loyal shareholders, for your support as we enter this exciting period of project delivery.



Mr Grant Mooney
Chairman of Directors



Dr. Michael Ottaviano
Managing Director & Chief Executive Officer

Company Overview

Carnegie Wave Energy Limited (ASX: CWE) is in the process of commissioning the first CETO commercial demonstration project, the Perth Wave Energy Project.

Carnegie Wave Energy Limited is an ASX-listed (ASX: CWE) company and the owner and developer of the CETO wave energy technology. Carnegie is based in Western Australia with both a corporate office and a private research and development facility located in North Fremantle. With approximately 40 staff members, Carnegie is focused on the development & commercialisation of its proprietary CETO wave energy technology. The CETO technology is unique in the wave energy industry being fully submerged beneath the ocean's surface, with the potential to produce zero emission electricity either onshore or offshore as well as the ability to produce fresh water. The CETO technology has been under development for more than 10 years and Carnegie is now ready to commission the first CETO grid connected commercial demonstration, the Perth Wave Energy Project (Perth Project).

The Perth Project will demonstrate for the first time an array of multiple wave energy converters producing both power and water. The Project will consist of three CETO 5 units, located offshore of Garden Island in Western Australia, home to the HMAS Stirling naval base. The Project will supply power and freshwater to

the Department of Defence, generating Carnegie's first CETO revenues. The Perth Project is supported by \$22m in Australian Federal and Western Australian State Government funding.

In parallel with the Perth Project, Carnegie continues to build commercial opportunities internationally as well as progress the development of the CETO technology. To this end Carnegie has secured funding for its next stage of development, its CETO 6 Project. This project will also be located at Garden Island, but in deeper water, further offshore in a higher wave energy environment. This project is supported by a \$11m Australian Government Grant and a \$20m loan facility from the Clean Energy Finance Corporation (CEFC). It will utilise the next design iteration of the CETO technology, CETO 6, and is currently in the design phase.

Through its 100% owned subsidiary CWE UK, Carnegie has also secured an additional CETO 6 site at the Government funded Wave Hub in the UK for an up to 10MW project which will take advantage of the UK wave energy feed in tariff scheme.

Perth Project onshore site and shore crossing

Perth Wave Energy Project

The Perth Wave Energy Project, to be commissioned in 2014, will provide grid connected electricity and desalinated water to the Australian Department of Defence.

The Perth Wave Energy Project (Perth Project) is Carnegie's first demonstration of a grid and freshwater connected, multiple unit CETO system. The Perth Project is located 30km south of Perth in Western Australia, on Garden Island, home to Australia's largest naval base, HMAS Stirling. All electricity and desalinated water generated by the Project will be sold to the Department of Defence.

Objectives

As a demonstration project, the main purpose of the Project is to demonstrate the technical and functional viability of the full CETO project system. This includes verifying system engineering and design, manufacture, construction, installation, deployment, grid connection, water mains connection, operation, maintenance and environmental monitoring and compliance. The construction of the Perth Project involves the installation of offshore foundations, pipework, pods and CETO units as well as the pipeline ashore to the onshore power station and desalination plant. Additionally, it is important to demonstrate the reliable production of electricity and freshwater from a CETO wave energy system and the sale of electricity to a credible customer via a utility compliant grid connection.

Funding

The total Project cost including design, development and corporate overheads is approximately \$34m with part funding of \$22m from Government Grants. The Australian Federal Government, through the Australian Renewable Energy Agency (ARENA) has supported the Project with \$13.1m grant while the Western Australian Government has supported the Project with \$7.3m. This WA funding is from a larger, \$10m LEED grant to support the development of the CETO technology from concept through to the completion of the Perth Project. In addition, \$1.27m was awarded by the Australian Government through AusIndustry's Clean Technology Innovation Program, to support the desalination pilot plant.



CEO Michael Ottaviano with the Hon Ian McFarlane, Federal Minister for Industry at official unveiling of Buoyant Actuators at BAE Systems, Henderson

Power & Water Supply

A key objective of the Perth Wave Energy Project is to supply grid quality power and water mains quality potable freshwater to a credible customer. Carnegie will achieve this through formal connection and power and freshwater supply agreements with the Department of Defence. In July 2012 Carnegie signed these agreements which make allowance for the Department of Defence to purchase both the power and water produced by the Project to supply the HMAS Stirling naval base on Garden Island. These supply agreements demonstrate the Department of Defence's ongoing support for the CETO technology and in particular, for the Perth Project. This is reflective of more broad interest Carnegie has received from defence organisations globally.

Perth Wave Energy Project

Site Details

The Perth Project comprises of an onshore site on Garden Island, 30km south of Perth, Western Australia as well as an offshore site, approximately 3km offshore.

Onshore, the Project consists of a powerhouse, desalination plant, control room and connection to the state electricity grid. These components have been constructed in a disused, pre-disturbed quarry at the south west side of Garden Island, home to HMAS Stirling Australia's largest naval base. Use of these Commonwealth lands was granted to Carnegie by Department of Defence in 2011 via a licence agreement with formal handover of the site occurring in June 2013.

The offshore area for the Perth Project will house 3 CETO units as well as associated pods and pipelines. Prior to commencing construction Carnegie secured all necessary approvals and tenure including environmental and maritime safety approvals from the Department of Defence and Western Australian Department of Transport and offshore planning approval from the Western Australian State Government.

Project Status

The Perth Project is approaching the deployment and commissioning phase, with onshore testing underway to ensure the deployment process is executed as smoothly as possible.

Each of the project components underwent a series of rigorous tests, including Factory Acceptance Tests (FAT) prior to being transported from their respective suppliers' to Carnegie's onshore staging area in Henderson, Western Australia. Upon arrival to the

onshore staging area, components were subjected to integration testing in order to verify performance and fit with the other elements of the CETO system.

A considerable amount of time has been spent on the system integration and onshore testing to mitigate installation and operational risks and allow Carnegie's in-house engineering team to identify and deal with any potential issues while still on dry land.

Desalination

As part of the Perth Project, Carnegie was awarded \$1.27m of funding by AusIndustry for a desalination pilot plant. The containerised desalination plant, supplied by Perth-based Mak Water, is connected to the water supply system on Garden Island, which will supply the Australian Department of Defence.

The plant is hydraulically and mechanically integrated into the Perth Project making this the first directly wave powered electricity and desalination plant globally.



Desalination pilot plant at Perth Wave Energy Project site



Buoyant Actuators and Pumps at BAE Systems, Henderson

Perth Wave Energy Project / Technical Details

- Planning approval for marine elements granted by WA Department of Regional Development and Lands and 3 x CETO 5 units, rated at approximately 240kW each
- Assembly and System Integration Testing carried out at BAE, Henderson prior to deployment
- Power and desalinated water sold to the Australian Department of Defence
- Operation for an initial 12 month period



Buoyant Actuator

Supplier: Strategic Marine.
Specifications: 11m diameter, hydraulic load management system, internal ballast tanks and internal fixed buoyancy modules.
Material: Predominately steel, internal structure covered by an external shell.



Tether

Supplier: Subsea Riser Products Ltd.
Specifications: Rope and two universal joints.
Material: Rope is polyester, Universal Joints are high strength steel.



Pump

Supplier: Douce-Hydro.
Specifications: High pressure rated subsea hydraulic cylinder.
Material: Carbon and stainless steel.



Connectors

Supplier: Subsea Riser Products.
Specifications: Automatic latching quick connect and release connector, reducing the time taken to install and recover the CETO Unit.



Foundation

Supplier:

GHD Pty Ltd (detailed design, installation methodology) Keppel Prince Engineering Pty Ltd (fabrication and supply of materials), Fugro Seacore (offshore installation).

Specifications:

Drilled and grouted pile, installed summer 2013/2014.

Attachment

Supplier:

Subsea Riser Products.

Specifications:

Articulated connection between the base of the CETO Unit and the Foundation.

Material:

Carbon steel.

Pipeline

Supplier:

FlexSteel Pipeline Technologies Inc (pipe), Total AMS Pty Ltd (installation).

Specifications:

6km of flexible steel reinforced pipe, high density polyethylene (HDPE) high pressure water and return pipe.

Onshore Plant

Supplier:

ABB

Specifications:

Control system and electrical generation equipment. ABB "Symphony+" control system, National Instruments high speed data acquisition hardware.

Desalination

Supplier:

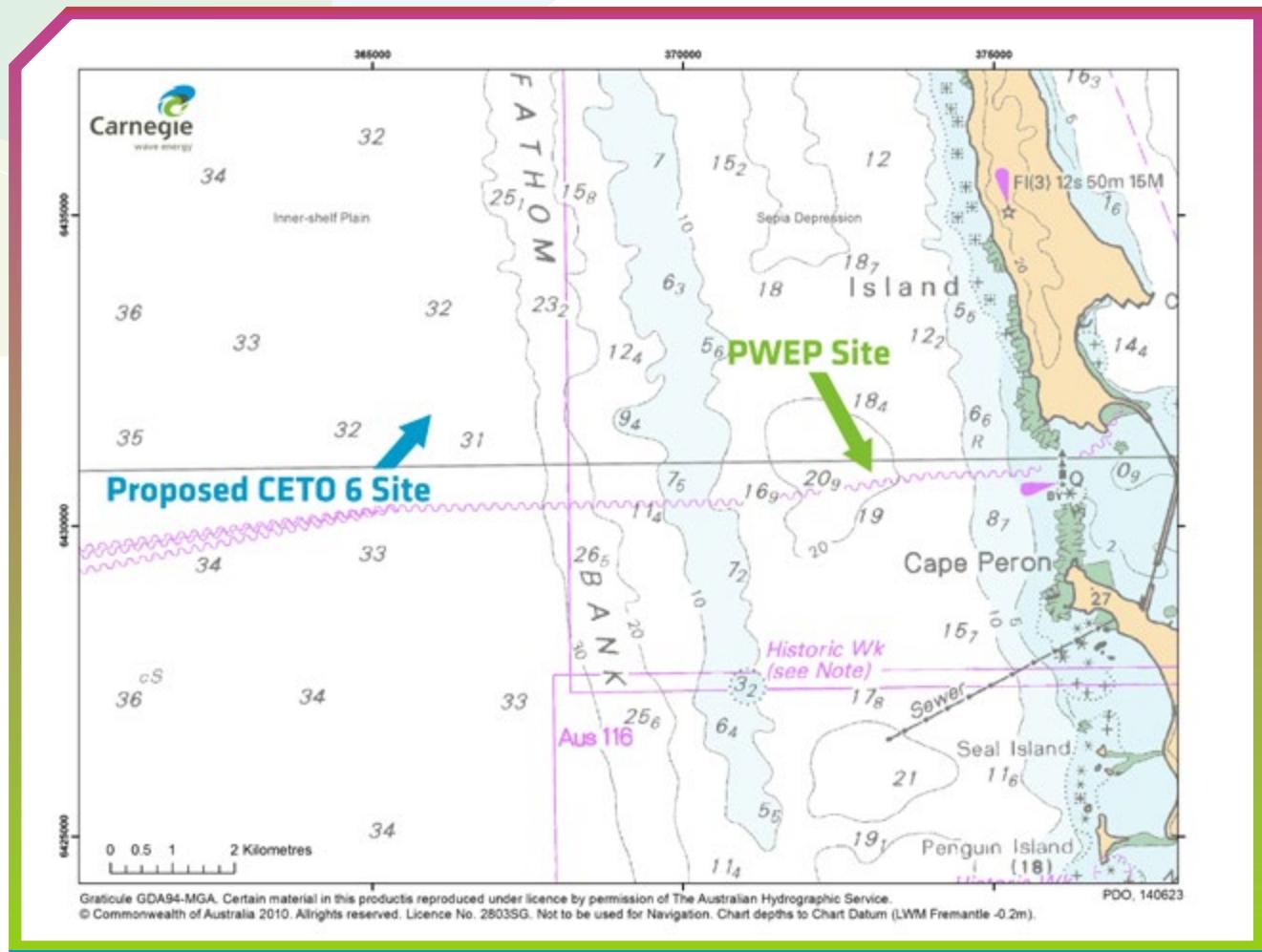
MAK Industrial Water Solutions.

Specifications:

Directly powered by CETO hydraulic energy, integrating off-the-shelf reverse osmosis desalination, containerised desalination plant, capable of being powered on-grid.

CETO 6 Project

The \$31m CETO 6 Project will include the design, construction and deployment of three CETO 6 units off Garden Island in Western Australia. The CETO 6 Project is funded by Carnegie equity, a \$20m loan facility with the Clean Energy Finance Corporation (CEFC) and an \$11m ARENA grant.



Project Details

The CETO 6 Project will include the design, construction and deployment of three CETO 6 units off Garden Island in Western Australia. The Project will be up to 3MW in capacity and will be connected to the Western Australian electricity grid. Electricity generated from the Project will be sold to the Australian Department of Defence under Carnegie's existing power supply agreement. Carnegie is currently in the design stage and is targeting a 2016 construction for the Project.

The Project is supported by a recently awarded \$11m Australian Government grant from the Australian Renewable Energy Agency and a \$20m five year loan facility from the Australian Clean Energy Finance Corporation (CEFC).

The Project site is located off Garden Island, in deeper water, west of the current Perth Project site and beyond Five Fathom Bank. This site offers a higher energy site with the potential for further commercial expansion.

CETO 6 Project

Funding

The CETO 6 Project is funded by Carnegie equity, a \$20m loan facility with the Clean Energy Finance Corporation (CEFC) and an \$11m ARENA grant.

In the last year, Carnegie has completed two capital raising initiatives that raised \$13.35m to support the CETO 6 Project. In November 2013, Carnegie completed a capital raise of \$4 million by issuing convertible notes to support the design of the CETO 6 Project. Then, in April 2014 Carnegie completed an oversubscribed Share Purchase Plan and private placement which raised \$9.35m from its 8,000 Australian shareholders to be used for the CETO 6 Project.

In March 2014, Carnegie signed a five-year \$20 million loan facility with the Clean Energy Finance Corporation (CEFC) that will provide part of the financing required for the CETO 6 Project. The loan facility is CEFC's first wave energy investment and is the first of a new hybrid corporate loan/project finance structure that was developed for this transaction by Carnegie and the CEFC.

The new financing model is designed to fund the development of a specific project but upon drawdown places security over the assets of the company including any cash refunds the company will receive under the R&D tax incentive.

Then, in June 2014, Carnegie was awarded a new \$11m grant from the Australian Renewable Energy Agency's Emerging Renewables Program for the design, construction and deployment of the CETO 6 Project.

Technology Improvements

The CETO 6 unit incorporates several advances in design including a targeted power generation capacity of 1MW (1000 kW) and offshore power generation inside the buoy.

The increased unit capacity, combined with superior efficiency, and reduced maintenance costs of CETO 6 delivers significantly reduced power costs. The size of the Buoyant Actuator has the most significant influence on power output and cost reductions and the diameter of the CETO 6 Buoyant Actuator will be increased from the 11m diameter of CETO 5 unit to approximately 20m. When deployed at large commercial scale, Carnegie aims for the CETO 6 unit to be cost competitive in a range of markets globally.

The CETO 6 power generation system will also be moved offshore, and inside the buoy, rather than solely onshore as with the current

CETO 5 generation. By moving the power generation offshore, the commercial market is increased as CETO can take advantage of deeper, more distant to shore wave resources and project sites.

Significant hydrodynamic modelling analysis of larger buoys has been undertaken over the past 2 years, including independent third party verification, confirming the relationship that underpins the increased capacity and efficiency with increasing buoy size. This analysis is fed into the CETO 6 design process which commenced in 2013.

The CETO 6 detailed design will be carried out in 2015 and will integrate performance results and learnings from the CETO 5 installation and operation. As with the in-ocean operation of previous CETO units, critical performance outputs from CETO 5 will be collected through the use of specialised in-ocean measurement and communications equipment. In total over 500 sensors will provide essential high frequency and real time data which is used to validate hydrodynamic, kinematic and hydraulic computational models prior to the finalisation of the CETO 6 design.



Development Pathway

Research & Development

- » Over 10 years, \$70 million spent on development
 - » Proof of concept produced zero-emission power and desalinated water
 - » Pilot scale testing completed at Private Wave Energy Research Facility
- » Carnegie assumed 100% ownership of CETO IP
 - » First licence agreement signed with EDF EN
 - » In-ocean testing & independent verification of large scale prototype

Grid Connected Demonstration

- » Perth Wave Energy Project
 - » 60% Government grant funded
 - » First grid connection
 - » First freshwater production
 - » Demonstration of a multiple unit CETO array
 - » Ongoing CETO technology development

2004

2010



CETO 6 Development

- » CETO 6 design targeted power capacity of 1MW
- » First CETO 6 project located at Garden Island
- » Three CETO 6 units, up to 3MW in capacity
- » \$11m Australian Government grant, \$20m 5yr loan from Clean Energy Finance Corporation
- » Power to be purchased by Department of Defence
- » Wave Hub project site for subsequent CETO 6 project up to 10MW capacity

Commercialisation Portfolio

- » Commercial power and desalination projects
- » Mix of build, own and operate, equipment supply and licence only products
- » Multiple commercial CETO Power projects
- » Target countries with high power and water tariffs – both incentive driven and remote markets

2014 >

2017 +

»»»

CETO Project Pipeline

Carnegie continues to work closely with its international partners to develop a pipeline of future commercial CETO projects around the world. The most attractive markets for CETO are remote islands (many of which are currently using costly diesel generation) and supported markets with feed-in tariffs.

United Kingdom & Europe

There are a number of European countries with both significant wave energy resources and strong government support mechanisms for the marine energy industry. In particular, Carnegie is actively investigating opportunities and developing projects in the UK and Ireland.

The UK is one of the world leaders in marine energy with significant wave resources and market opportunities which makes it an attractive market opportunity for Carnegie. As such, Carnegie established a 100% owned subsidiary, CETO Wave Energy UK Ltd (CWE UK) in 2013 and then in 2014 secured the final berth at WaveHub, a purpose built wave energy demonstration facility in Hayle, Cornwall, south west England. Following the design of the CETO 6 unit, Carnegie will build an up to 10 MW project at WaveHub as Carnegie's first European project.

Ireland also offers an attractive resource and market opportunity for CETO projects. In the last year, the Irish government has increased their support for the marine energy sector and Carnegie has continued working to develop its 5MW CETO Project in County Clare, Ireland through its Irish subsidiary CETO Wave Energy Ireland (CWE Ireland). Carnegie has been awarded a Foreshore licence in respect of site investigation works for this Project.



CORNISH COASTLINE

CETO Project Pipeline

The Americas

The US and Canada both have an excellent wave energy resource off the west coast that is suitable for the development of CETO projects. Carnegie's project development team continues to build new relationships with industry partners and work with existing partners to identify potential CETO project sites and opportunities. North American interest and support for the marine energy industry continues to grow and Carnegie envisions building commercial CETO Projects in North American in a number of years.

The Chilean coast has a good wave energy resource and the Chilean government is investigating ways to support the development of the marine energy industry in Chile. Carnegie has established a 100% owned subsidiary in Chile in order to explore opportunities to develop CETO Projects in the country. Carnegie's South American Development Manager, Arturo Troncoso, the Director of Carnegie's local development partner, Renewable Energy Development Enterprises (REDE), continues to work collaboratively with Carnegie to identify and pursue project opportunities and build relationships with local industry partners and the Chilean Government.



Potential wave energy site in Chile

Remote Islands

Remote islands, such as Bermuda and La Reunion, have been identified as an attractive market for the CETO technology as they tend to rely on electricity generators running on imported liquid fossil fuels to provide both power and desalinated water. The import of liquid fossils fuels, mainly diesel, is expensive, offers limited short-term security of supply due to price volatility and reliability of supply, and results in significant greenhouse gas emissions that contribute toward climate change.

In remote island and off-grid markets, wave energy offers unique advantages over incumbent fossils fuels by using local, abundant and renewable energy supply to provide both power and water where it is needed, thereby helping remote communities and industry to become more energy self-sufficient. As an example, Bermuda, like many islands, has limited native energy resources and relies on imported diesel for both power and water production. It does, however, have an abundant and accessible wave energy resource, making it a country of interest for further development of future commercial CETO projects.

Carnegie continues to work with Bermudian company, Triton Renewable Energy Ltd to explore the potential for a commercial CETO project in Bermuda. CETO project development also has the support of local power utility, the Bermuda Electric Light Company Ltd. Further, Carnegie is actively working with Electricity de France (EdF) to develop a commercial CETO plant on La Reunion.



Aerial view of Bermuda

Future Commercial Opportunities

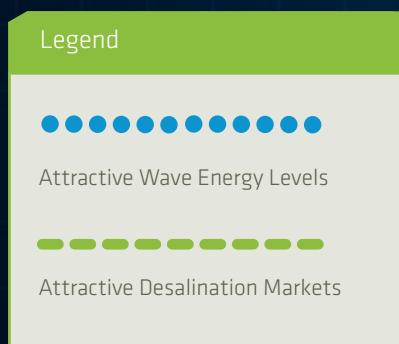
Carnegie is working to develop a strong portfolio of commercial project opportunities.

North America

- Excellent wave energy resource, primarily off the west coast.
- Carnegie's project development team continues to build new relationships with industry partners and work with existing partners to identify potential CETO project sites and opportunities.
- Interest and support for the marine energy industry is currently focused on the north west coast and Hawaii.

Chile

- Excellent wave energy resource.
- Government is investigating ways to support the development of the marine energy industry.
- 100% owned subsidiary in Chile.
- South American Development Manager and the Director of Carnegie's local development partner, Renewable Energy Development Enterprises (REDE), Arturo Troncoso.





UK

- 100% owned subsidiary, CETO Wave Energy UK Ltd (CWE UK).
- Secured the final berth at WaveHub, a purpose built wave energy demonstration facility in Hayle, Cornwall, south west England with a capacity of up to 10 MW.

Ireland

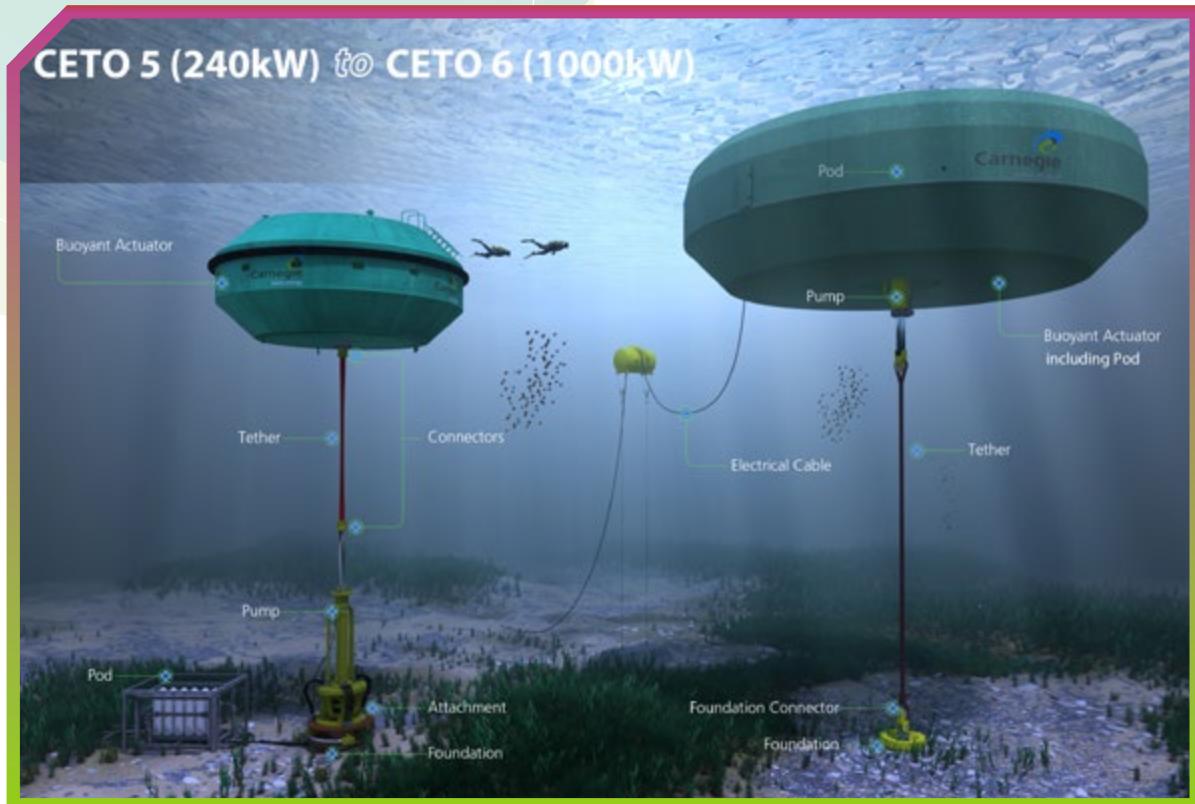
- 100% owned subsidiary CETO Wave Energy Ireland (CWE Ireland)
- Irish government has increased their support for the marine energy sector.
- Foreshore licence in respect of site investigation works for a CETO Project in County Clare.

Australia

- Vast untapped wave energy resource verified by groups such as the CSIRO (Commonwealth Scientific and Industrial Research Organisation).
- Partnership with University of Adelaide for a \$1.8m control systems project.

The CETO Technology

The CETO 6 design has a targeted rated power capacity some four times that of the current CETO 5 unit.



How CETO Works

The CETO wave energy converter is a unique, fully submerged, pump-based technology. The CETO system is different from other wave energy devices as it operates under water where it is safer from large storms and invisible from the shore.

CETO 5 Design

Fully submerged buoys are tethered to seabed pump units. These buoys move with the motion of the passing waves and drive the pumps. The pumps pressurise water which is delivered onshore via a subsea pipe.

Onshore, 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. The technology is

also capable of generating power offshore should the specific characteristics of a project site require it.

CETO 6 Design

The CETO 6 unit is targeting a 1MW (1000kW) rated power capacity, some four times that of the current CETO 5 generation being used in the Perth Project. It will also have superior efficiency, lower capital cost and reduced maintenance costs for sites where the array is located far from shore or in deeper water. The diameter of the CETO 6 buoyant actuator has been increased from the 11m diameter of the CETO 5 unit to approximately 20m.

CETO 6 will also incorporate the power generation system offshore, inside the buoy rather than solely onshore as with the current CETO 5 system. This option allows CETO to take advantage of deeper, more distant to shore wave resources which significantly increases the size of the commercial market for CETO. Close to shore project opportunities could still generate power (and water) onshore.

CETO Intellectual Property

Carnege invests in the creation and protection of its intellectual property which is a source of competitive advantage.

The creation, protection and maintenance of all aspects of intellectual property relating to the CETO Technology is a core activity for Carnegie.

As the 100% owner of the Global Intellectual Property & Development Rights for the CETO Technology, Carnegie has invested extensively in protecting novel aspects of the CETO technology and has recently expanded its intellectual property team.

Carnegie's CETO intellectual property portfolio has grown to include nine patent families. The families range in maturity with 16 granted patents, and more than a hundred patents pending.

Carnegie will continue to actively generate and protect new intellectual property as CETO continues to mature. Carnegie's development capability and CETO experience coupled with Carnegie's intellectual property portfolio, create a significant barrier to entry and help create a competitive advantage for Carnegie to tap the world's vast wave energy resources.

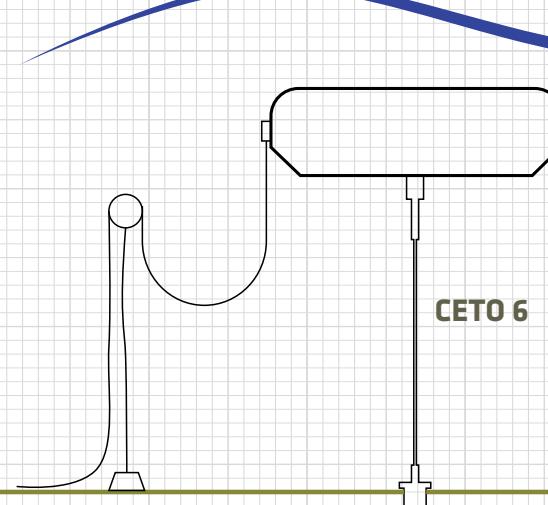
CETO Wave Energy Technology IP



1x Patent Family
Modular Construction

1x Patent Family
Deployment

Trade Mark
CETO

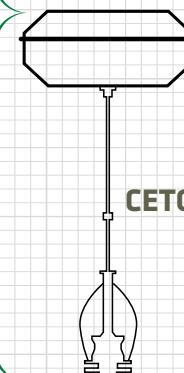


1x Patent Family
Buoyant Actuator

3x Patent Family
Energy Release in the
Buoyant Actuator

2x Patent Family
CETO Device

1x Patent Family
Hydraulic System



CETO PATENT FAMILIES

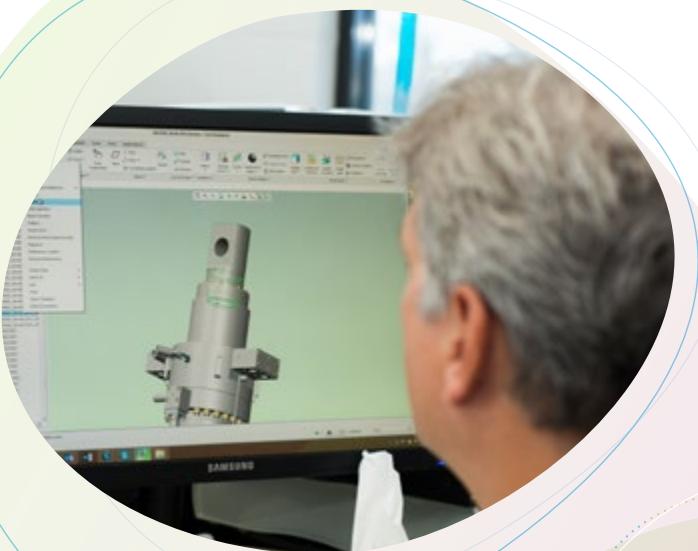
Carnegie Team

Carnege's dedicated team is passionate about developing an innovative wave energy technology.

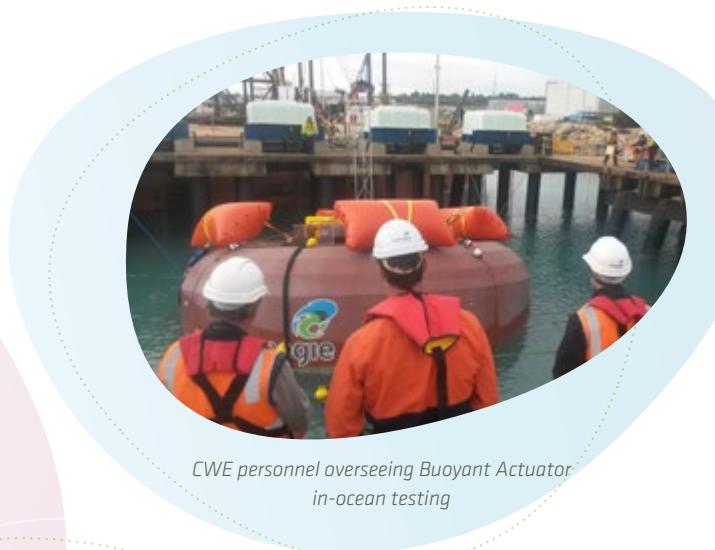
Carnegie's team has considerable experience in the development and commercialisation of technology across a range of research and development, technical, power utility and commercial-based industries both within Australia and internationally. Over the past 12 months the Carnegie team has gained additional expertise in the engineering department as well as in the support roles of finance, commercial development and intellectual property. In particular the team has been expanded to support the Perth Project as it moves through construction, onshore testing and into the commissioning and operation phase. The in-house knowledge

of the Carnegie team is paramount to the success of the Perth Wave Energy Project and its progress so far is testament to the dedication and acumen of the team.

Carnegie provides a unique opportunity to be led by a globally respected Board of Directors and be based in Western Australia whilst working at the cutting edge of an industry that is predominantly based in Europe and the UK. With a culture that cultivates passionate, innovative and friendly employees, Carnegie aims to provide a work environment that is flexible, supportive and progressive.



Carnegie's corporate office houses extensive design capabilities



CWE personnel overseeing Buoyant Actuator in-ocean testing



CWE personnel checking instrumentation readings during onshore testing

Health and Safety

Carnege's highest priority is the health and safety of all employees and stakeholders.

Carnege is dedicated to providing a safe working environment, ensuring that all operations are carried out in a safe manner. Carnegie strives to achieve higher levels of health and safety excellence through continuous improvement.

Carnege's commitment to Health, Safety and Environment (HSE) is formalised and implemented through its company-wide HSE Management Plan. This plan was developed to enable a uniform and effective standard of HSE management to be applied to all Carnegie activities. This plan supports Carnegie's commitment to health and safety which is outlined through the company Occupational Health and Safety, Injury Management, Drug and Alcohol and Training Policies.

Carnege continues to implement its Perth Wave Energy Project HSE Management Plan (HSEMP) to define the strategies that are used to safely execute the Perth Project with minimal environmental impact. Carnegie is also delivering its Perth Project

under its Construction Environment Management Plan which has been developed in liaison with key stakeholders to provide guidance for contractors involved in constructing the Perth Wave Energy Project and the Desalination Pilot Plant on Garden Island, Western Australia. The objective of these plans is to ensure mobilisation, construction, and demobilisation activities do not adversely affect health, safety, amenity, traffic or the environment in the surrounding areas.

Carnege continually works with its contractors and key stakeholders and has developed HSE documentation such as Site Inductions, Emergency Management Plans and Operation Procedures as the Company developed on various sites for the Perth Project. Ongoing monitoring of Health and Safety will continue through the commissioning and operation phases of the Project.



Carnegie engineers overseeing onshore testing at Henderson, WA

Environment

Carnege is committed to understanding and minimising CETO's environmental impact.

Sustainability and minimising environmental impact is fundamental to the CETO technology design and is a core consideration in corporate decision making and CETO project design and implementation.

The CETO wave energy technology has the ability to reduce the environmental impact of the power and water industries by producing zero-emissions renewable electricity and water. Furthermore, Carnegie's team actively works to incorporate environmental impact issues into the technology and project design and implementation process.

Carnegie's commitment to protect, sustain and enhance natural resources means that environmental assessment and monitoring is carried out on all project sites prior to, during and after CETO deployment. Carnegie is proactive in its efforts to understand any potential environmental impacts of the CETO technology on these early projects. Carnegie is doing additional environmental assessment and monitoring work in order to ensure and prove that the CETO system has minimal environmental impact. In

addition to internal environmental studies, Carnegie works with independent external consultants and research groups to assess the environmental baseline and monitor the interactions between the technology and the local environment.

While all environmental results to date suggest minimal environmental impact, Carnegie is committed to ensuring that the Perth Wave Energy Project, the CETO 6 Project and all other future projects undergo sufficient environmental assessment and monitoring to confirm that CETO is an environmentally benign addition to these environments.



Revegetation works along side the PWEP onshore pipeline route on Garden Island

Community Engagement & Knowledge Sharing

Carnege aims to be a positive force in the local community and global marine industry.

As part of Carnegie's ongoing commitment to empowering its staff to assist project development through contributing to the local, national and international communities, Carnegie works with local communities around its corporate headquarters in Fremantle, as well as near the Perth Wave Energy Project site. Carnegie welcomes opportunities to inform community members about the Project and the CETO technology via open days at its Private Wave Energy Research Facility and other public forums such as conference presentations, shareholder meetings and presentations to stakeholder groups.

Carnegie is also committed to contributing to the advancement of the marine energy sector's knowledge in technical, regulatory and commercial areas. Carnegie believes that sharing key lessons learned from the CETO technology development as well as the PWEP and CETO 6 Projects will provide important value for the development of the marine energy industry globally.

Carnegie participates in key marine energy industry conferences worldwide, engages in discussions and joint projects with other marine energy industry players such as Atlantis Resources Ltd and Aquamarine Power, and initiates specific collaborative projects with academic and industry partners in Australia and globally. For instance, Carnegie has projects underway or in development with partners such as the University of Western Australia, Curtin University and University of Adelaide amongst others. These projects cover topics such as technical design, site characterisation and environmental monitoring. Carnegie also participates in initiatives such as the Researchers in Business Program in Australia and European marine initiatives such as Marinet Transnational Infrastructure Access Program.



Carnegie's CEO Michael Ottaviano updating stakeholders on the Perth Wave Energy Project



CETO fishing game at Carnegie's exhibition stand at Fremantle Ports Maritime Day

Carnegie Board of Directors

Carnege's Board of Directors is globally recognised with vast international experience.



Left to right : Kieran O'Brien, Mike Fitzpatrick, John Leggate, Jeff Harding, Dr. Michael Ottaviano and Grant Mooney.

Grant Jonathan Mooney B.Bus, CA

Chairman & 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 to several ASX listed companies across a variety of industries including technology and resources. He is a director of Phosphate Australia Limited, appointed 14 October 2008, Barra Resources Limited, appointed 29 November 2002, Wild Acre Metals Limited, appointed 1 May 2007 and Talga Resources Limited, appointed 20 February 2014. He was a director of Attila Resources Limited from 15 March 2010 to 12 October 2012 and Carbine Resources Limited from 16 January 2012 to [date tba] August 2014. Mr Mooney is a member of the Institute of Chartered Accountants in Australia.

Dr Michael Edward Ottaviano

B.Eng, MSc, DBA, MAICD, M.I.EngAus

Chief Executive Officer and Managing Director

Dr Ottaviano has been employed by Carnegie Wave Energy Ltd since January 2006 and was made Managing Director in March 2007. Dr Ottaviano oversees all activities that the Company undertakes including all commercial and technical aspects of the Company's operations, engineering and design, intellectual property and finance and administration. During his time as CEO Dr Ottaviano has lead the Company's development of its CETO Wave Energy technology from Proof of Concept, through a Pilot Plant phase and into the initial Commercial Demonstration stages and has been responsible for raising \$77m in equity, \$35m in Government grant funding and \$20m in a loan facility.

Dr Ottaviano has previously worked in research and development and was a divisional manager for a private Australian engineering company. Prior to joining Carnegie Wave Energy 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 has also been a Board Member of the Clean Energy Council, Australia's clean energy peak industry group, and a member of the Australian Government's Energy White Paper High Level Consultative Committee.

Dr Ottaviano has a Bachelor of Engineering, a Masters of Science and a Doctorate in Business Administration.

Kieran O'Brien B.Eng, MBA, MEngSc, FIEE

Executive Director - European Business Development

Kieran is a former Managing Director of ESB (Ireland's Electricity Supply Board) National Grid and served as a member of the Executive Management Group for more than 15 years.

Carnegie Board of Directors

He has been responsible for long term strategic planning in ESB and for relations with the Irish Government and European Union in the fuel and utility sector. Kieran was Acting Secretary General of the World Energy Council (WEC) from 2008-2009 and served two three year terms as a member of the Officer's Council of the WEC.

His international power industry experience extends to Asia, Africa, the Middle East, Eastern Europe, and North America.

Mike Fitzpatrick B.Eng (Hons), B.A (Hons)

Non - Executive Director

Mr Fitzpatrick has over 33 years in the financial services sector. After a career in investment banking in Australia and the US, Mike founded Hastings Funds Management Ltd ('Hastings'). Hastings was a pioneering infrastructure asset management company where he was Managing Director until he sold his interest to Westpac Banking Corporation. At that time, Hastings was one of the largest managers of infrastructure and alternative assets in Australia, managing investments of approximately A\$3.8 billion.

Mike was a director of a number of Hastings' managed investments, including Pacific Hydro Limited, Global Renewables Limited, Utilities of Australia and Australian Infrastructure Fund. Mike is currently Chairman of the Infrastructure Capital Group, a boutique manager of \$1.4 billion of energy and infrastructure assets, Chairman of Treasury Group Limited and also Chairman of the Australian Football League. He also holds a number of other non executive directorships, including Rio Tinto Limited and Rio Tinto plc.

Mike holds a B.Eng. (Hons) degree in Electrical Engineering from the University of Western Australia and in B.A. (Honours) from Oxford University in 1975, where he was a Rhodes Scholar.

Jeff Harding B.Eng, B.Comm, MBA, FAICD

Non-Executive Director

Jeff has extensive experience in the renewable energy sector. From 1995 to 2005 Jeff was Managing Director of Pacific Hydro Limited, Australia's largest renewable energy developer with wind and hydro energy projects in Australia, Asia and Chile.

During his tenure, Jeff oversaw the international expansion of the business with growth in market capitalisation from AU\$5 million to over AU\$750 million and an increase in profit after tax each year from 1996 to 2005, when Pacific Hydro was sold to IFM Renewable Energy.

Jeff has degrees in Civil Engineering, Economics, and a Masters Degree in Business Administration and is a Fellow of the Australian Institute of Company Directors. He resides in both Europe and Australia.

Jeff is also Chairman of Ceramic Fuel Cells Ltd (AIM:CFU), was formerly General Manager of Brambles Industrial Services and Vice President of the Australian Business Council for Sustainable Development. Jeff regularly presents on issues associated with climate change and renewable energy

John Leggate CBE, FREng

Non-executive Director

Mr Leggate is a highly experienced oil and gas and venture capital industry executive. He worked for over twenty seven years for BP, most recently as the Group Chief Information Officer and member of the BP Group Senior Leadership Team.

At BP Mr Leggate was closely involved in the development of corporate policy on technology foresight, and corporate venturing during the dotcom era. He has spent 20 years in the exploration and production business; running various projects, construction, commissioning and production operations with a focus on the North Sea, Azerbaijan and the Caspian Region. Mr Leggate's early career was spent in marine consultancy at Yarrows Admiralty Research in Glasgow and after that he was engaged in the design and construction of coal, oil and nuclear power stations with South of Scotland Electricity Board (now Scottish Power).

In 2012 John began working with Quintal Partners a Hong Kong based advisory firm specialising in global technology arbitrage across the energy, cleantech and transportation sectors. Quintal Partners offers strategic advisory, financing and business development services. John has served as a director on the Main Board and Audit Committee of London listed Parkmead Group and Ogin (previously FloDesign Wind Turbines), a venture backed Boston based wind turbine company. He has also served on the UK DTI Far Eastern Trade Advisory Board for four years and was advisor to the US House Science Committee on the potential threat from cyber security on critical national infrastructure and global trade.

Mr Leggate was awarded Commander, The Most Excellent Order of the British Empire in the 2004 New Year's Honours List in recognition of outstanding contribution and leadership to the international digital technology agenda. John is a graduate of Glasgow University and is a Fellow of the Institute of Electrical Engineering and Fellow of the Royal Academy of Engineering.

Corporate Governance

Carnegie Wave Energy 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 2014.

Board of Directors / Executive Management

The Board comprises of a Non-Executive Chairman, Managing Director, Executive Director of European Business Development 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. However, a specific policy exists for the selection and appointment of new directors.

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 three independent directors: of a Non-Executive Chairman and two Non-Executive Directors. These three Directors, being Grant Mooney, Jeffrey Harding and John Leggate.

Each of these directors 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" as none of the directors:

- » are a member of management;
- » are 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 have 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 have 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.

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.

Corporate Governance

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 Wave Energy Limited are:

- » oversight of the Company's financial affairs and internal controls 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 Wave Energy 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.

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;

Corporate Governance

- » existing or proposed share option or loan funded 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 and one executive director. Two 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. The Board receives 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. John Leggate (Non-executive Director and Remuneration Committee Chairman), Kieran O'Brien (Executive Director) and Grant Mooney (Non-Executive Chairman and Company 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 services provided to the Company under employment contract 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 Jeffrey Harding (Non-Executive Director and Audit Committee Chairman), Grant Mooney (Non-Executive Chairman/Company Secretary) and Michael Fitzpatrick (Non-Executive Director).

The Audit Committee met twice during the reporting period.

Selection of External Auditor

Should there be a vacancy for the position of external auditor, Carnegie Wave Energy, through the Audit Committee, conducts a formal tendering process, either a general or selective tender.

Tenders are evaluated in accordance with the criteria, as appropriate from time to time, provided to tenderers. Tenders are not assessed solely on the basis of price, but on a number of issues such as:

- » skills and knowledge of the team proposed to do the work;
- » quality of work;
- » independence of the audit firm;
- » lead signing partner and independent review partner rotation and succession planning;
- » value for money;
- » ethical behaviour and fair dealing; and
- » independence from Carnegie Wave Energy.

Through the tendering process, the Audit Committee identifies and recommends an appropriate external auditor for appointment by the Board in conjunction with senior management and/or Carnegie Wave Energy in general meeting. The appointment is made in writing.

Corporate Governance

The external auditor is required to rotate its audit partners so that no partner of the external auditor is in a position of responsibility in relation to Carnegie Wave Energy's accounts for a period of more than five consecutive years. Further, once rotated off Carnegie Wave Energy's accounts no partner of the external auditor may assume any responsibility in relation to Carnegie Wave Energy's accounts for a period of five consecutive years. This requires succession planning on the part of the external auditor, a process in which Carnegie Wave Energy is involved.

The Company has appointed, with their consent, Crowe 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 2014.

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.

Diversity Policy

The Company recognises that a diverse and talented workforce is a competitive advantage and that the Company's success is the result of the quality and skills of our people. As such, the Board has adopted a policy to recruit and manage on the basis of qualification for the position and performance, regardless of gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability. It is essential that the Company employs the appropriate person for each job and that each person strives for a high level of performance. The company currently employs (including on a consulting basis) 41 staff; 8 females and 33 males.

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.

Within this policy are specific provisions including blackout periods where executive staff and employees cannot trade in Company securities as well as requirements for obtaining prior written approval from an authorised person prior to any trade taking place.

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.carnegiewave.com on which the Company makes information available on a regular and up to date basis.

Corporate Governance

The Company maintains a database of shareholders who receive automatic email updates of significant developments in the Company's affairs. Summaries of the Company's Corporate Governance Policies including the Remuneration Committee Charter and the Audit Committee Charter are available on the Company's website.

Explanation For Departure From Best Practice Recommendations

The Company has complied with each of the Eight Corporate Governance Principles and Recommendations as published by ASX Corporate Governance Council, other than in relation to the matters specified below.

Principle No	Best Practice Principle	Commentary	Mechanism for Dealing with Non-Compliance
1	Lay Solid Foundations for Management and Oversight	<p>The Company has complied with the recommendations as set out under this Principle.</p> <p>A performance evaluation for senior executives took place during the reporting period which was in accordance with the Board and Senior Executives Evaluation Policy.</p> <p>A policy on matters reserved for the Board is outlined in this Report and is available on the Company's website.</p>	Not applicable
2	Structure the Board to Add Value	<p>» The Board should establish a Nomination Committee.</p> <p>Given the Company's size, it is not considered necessary to have a separate Nomination Committee.</p> <p>In addition to the above, the following information is provided:</p> <p>The skills, experience and expertise of each of the Company's directors are set out in the Company's Annual Report.</p> <p>If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his office as a director then provided the director must first obtain approval for incurring such expense from the Chairman the Company will pay the reasonable expenses associated with obtaining such advice.</p>	<p>The Board, in consultation with external advisers and the Remuneration Committee undertakes this role.</p> <p>A separate policy for <i>Selection and Appointment of New Directors</i> has been adopted by the Board which provides for the proper assessment of prospective directors and include, but are not limited to, their relevant experience and achievements, compatibility with other Board members, credibility within the Company's scope of activities, and intellectual and physical ability to undertake Board duties and responsibilities.</p>
3	Promote Ethical and Responsible Decision Making	<p>» Companies should establish a code of conduct and disclose the code or a summary of the code:</p> <p>The Company has a formal code of conduct. The code sets out the principles and standards with which all the Company's directors and employees are expected to comply in the performance of their respective duties. The code requires all directors and employees to act with honesty and integrity, comply with the law and conduct themselves in the best interests of the Company.</p> <p>The code of conduct is available on the Company's website.</p> <p>» Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.</p>	<p>The Board is accountable for ensuring this policy is effectively implemented. This is assessed annually. Each employee has a responsibility to ensure that these objectives are achieved.</p> <p>The Company has not yet set measurable objectives for achieving diversity. The Board continues to monitor diversity across the organisation and is satisfied with the current level of gender diversity within the Company. Due to the size of the Company, the Board does not consider it appropriate at this time to formally set objectives for gender diversity.</p>

Corporate Governance

Principle No	Best Practice Principle	Commentary	Mechanism for Dealing with Non-Compliance
		<p>The Company recognises that a diverse and talented workforce is a competitive advantage and that the Company's success is the result of the quality and skills of our people. The company's policy on diversity is to employ the right person for the right job regardless of their gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability. The company currently employs (including on a consulting basis) 41 staff; 8 females and 33 males.</p> <p>The Company's strategies are to:</p> <ol style="list-style-type: none"> 1. Recruit and manage on the basis of an individual's competence, qualification and performance; 2. Create a culture that embraces diversity and that rewards people to act in accordance with this policy; 3. Appreciate and respect the unique aspects that individuals bring to the workplace; 4. Foster an inclusive and supportive culture to enable people to develop to their full potential; 5. Identify factors to be taken into account in the employee selection process to ensure we have the right person for the job; 6. Take action to prevent and stop discrimination, bullying and harassment; and <p>Recognise that employees at all levels of the Company may have domestic responsibilities.</p>	
4	Safeguard Integrity in Financial Reporting	<p>» The Audit Committee should be structured such that it consists only of non-executive directors.</p> <p>The Audit Committee comprises 3 non-executive directors.</p>	Not applicable.
5	Make Timely and Balanced Disclosure	The Company complies with this Principle.	Not applicable.
6	Respect the Rights of Shareholders	The Company complies with this Principle.	Not applicable.
7	Recognise and Manage Risk	<p>The Company complies with this Principle.</p> <p>The Board of Directors has received a report from Management in relation to the effectiveness of the Company's management of the Company's material business risks.</p> <p>The Board has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration in relation to section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.</p>	Not Applicable
8	Remunerate Fairly and Responsibly	The Company complies with this Principle.	Not applicable.

Directors' Report / 30 June 2014

The Directors present their report on Carnegie Wave Energy Limited ("the Company", or "Carnegie") and its controlled entities, ("the Consolidated Group") for the financial year ended 30 June 2014.

DIRECTORS

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

Grant Jonathan Mooney B.Bus, CA

Chairman & 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 to several ASX listed companies across a variety of industries including technology and resources. He is a Director of Phosphate Australia Limited, appointed 14 October 2008, Barra Resources Limited, appointed 29 November 2002, Wild Acre Metals Limited, appointed 1 May 2007, Carbine Resources Limited, appointed 16 January 2012 and Talga Resources Limited, appointed 20 February 2014. He was a Director of Attila Resources Limited from 15 March 2010 to 12 October 2012. 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 and as Chairman on the 9th October 2009.

Dr Michael Edward Ottaviano

B.Eng, MSc, DBA, MAICD, M.I.EngAus

Chief Executive Officer and Managing Director

Dr Ottaviano has been employed by Carnegie Wave Energy Ltd since January 2006 and was made Managing Director in March 2007. Dr Ottaviano oversees all activities that the Company undertakes including all commercial and technical aspects of the Company's operations, engineering and design, intellectual property and finance and administration. During his time as CEO Dr Ottaviano has lead the Company's development of its CETO Wave Energy technology from Proof of Concept, through a Pilot

Plant phase and into the initial Commercial Demonstration stages and has been responsible for raising \$77m in equity, \$35m in Government grant funding and \$20m in a loan facility.

Dr Ottaviano has previously worked in research and development and was a divisional manager for a private Australian engineering company. Prior to joining Carnegie Wave Energy 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 has also been a Board Member of the Clean Energy Council, Australia's clean energy peak industry group, and a member of the Australian Government's Energy White Paper High Level Consultative Committee.

Dr Ottaviano has a Bachelor of Engineering, a Masters of Science and a Doctorate in Business Administration.

Kieran O'Brien

B.Eng, MBA, MEngSc, FIEI, FIEE

Executive Director

Mr O'Brien is a former Managing Director of ESB (Ireland's Electricity Supply Board) National Grid and served as a member of the Executive Management Group of ESB for more than 15 years. He has been responsible for long term strategic planning in ESB and for relations with the Irish Government and European Union in the fuel and utility sector. Mr O'Brien was Acting Secretary General of the World Energy Council (WEC) from 2008-2009 and served two three year terms as a member of the Officer's Council of the WEC. His international power industry experience extends to Asia, Africa, the Middle East, Eastern Europe and North America.

Directors' Report / 30 June 2014

Michael Fitzpatrick

B.Eng (Hons), B.A (Hons)

Non-Executive Director

Mr Fitzpatrick has over 33 years in the financial services sector. After a career in investment banking in Australia and New York with Merrill Lynch and CS First Boston, Mr Fitzpatrick founded Hastings Funds Management Ltd ('Hastings') in 1994. Hastings was the pioneering infrastructure asset management company where he was Managing Director until he sold his interest in 2005 to Westpac Banking Corporation. Hastings was then one of the largest managers of infrastructure and alternative assets in Australia, managing investments of approximately A\$3.8 billion. Mr Fitzpatrick was a Director of a number of Hastings' managed investments, including Pacific Hydro Limited, Global Renewables Limited, Utilities of Australia and Australian Infrastructure Fund.

Mr Fitzpatrick is currently Chairman of the Infrastructure Capital Group, a boutique manager of \$1.4 billion of energy and infrastructure assets, Chairman of Treasury Group Limited and also Chairman of the Australian Football League. He also holds a number of other non executive directorships, including Rio Tinto Limited and Rio Tinto plc. Mr Fitzpatrick holds a B.Eng. (Hons) degree in Electrical Engineering from the University of Western Australia and in B.A. (Honours) from Oxford University in 1975, where he was a Rhodes Scholar.

Jeffrey Harding

B.Eng, B.Com, MBA, FAICD

Non-Executive Director

Mr Harding has extensive experience in the renewable energy sector. From 1995 to 2005 Mr Harding was Managing Director of Pacific Hydro Limited, Australia's largest renewable energy developer with wind and hydro energy projects in Australia, Asia and Chile. During his tenure, Mr Harding oversaw the international expansion of the business with growth in market capitalization from AU\$5 million to over AU\$750 million and an increase in profit after tax each year from 1996 to 2005, when Pacific Hydro was sold to IFM Renewable Energy.

Mr Harding has degrees in Civil Engineering, Economics, and a Masters Degree in Business Administration and is a Fellow of the Australian Institute of Company Directors. He resides in both Europe and Australia.

Mr Harding was also Chairman of Ceramic Fuel Cells Ltd (AIM:CFU), was formerly General Manager of Brambles Industrial Services and Vice President of the Australian Business Council for Sustainable Development. Mr Harding regularly presents on issues associated with climate change and renewable energy.

John Leggate

CBE, FREng

Non-executive Director

Mr Leggate is a highly experienced oil and gas and venture capital industry executive. He worked for over twenty seven years for BP, most recently as the Group Chief Information Officer and member of the BP Group Senior Leadership Team.

At BP Mr Leggate was closely involved in the development of corporate policy on technology foresight, and corporate venturing during the dotcom era. He has spent 20 years in the exploration and production business; running various projects, construction, commissioning and production operations with a focus on the North Sea, Azerbaijan and the Caspian Region. Mr Leggate's early career was spent in marine consultancy at Yarrows Admiralty Research in Glasgow and after that he was engaged in the design and construction of coal, oil and nuclear power stations with South of Scotland Electricity Board (now Scottish Power).

In 2012 John began working with Quintal Partners a Hong Kong based advisory firm specialising in global technology arbitrage across the energy, cleantech and transportation sectors. Quintal Partners offers strategic advisory, financing and business development services. John has served as a Director on the Main Board and Audit Committee of London listed Parkmead Group and Ogin (previously FloDesign Wind Turbines), a venture backed Boston based wind turbine company. He has also served on the UK DTI Far Eastern Trade Advisory Board for four years and was advisor to the US House Science Committee on the potential threat from cyber security on critical national infrastructure and global trade.

Mr Leggate was awarded Commander, The Most Excellent Order of the British Empire in the 2004 New Year's Honours List in recognition of outstanding contribution and leadership to the international digital technology agenda. John is a graduate of Glasgow University and is a Fellow of the Institute of Electrical Engineering and Fellow of the Royal Academy of Engineering.

Directors' Report / 30 June 2014

During the year and at the date of this report, the direct and indirect interests of the Directors in the shares and options of the Company were:

	Ordinary Shares	Options
Michael Fitzpatrick *	115,365,359	15,000,000
Dr Michael Edward Ottaviano	39,790,000	-
**		
Grant Jonathan Mooney ***	2,553,651	15,000,000
Jeffrey Harding ****	958,750	5,000,000
Kieran O'Brien	170,000	10,000,000
John Leggate	100,000	5,000,000

* Mr M Fitzpatrick is a Director of Log Creek Pty Ltd and therefore is deemed to have an interest in 115,365,359 ordinary shares and 15,000,000 options held by Log Creek Pty Ltd and 88 Green Ventures.

** Dr M E Ottaviano is deemed to have an interest in 390,000 ordinary shares held by his spouse, Amanda Ottaviano. Dr Ottaviano also has an interest in 4,400,000 ordinary shares as trustee for the "Wanderlust Trust".

*** Mr G J Mooney is a Director of Mooney & Partners Pty Ltd and therefore is deemed to have an interest in 2,553,651 ordinary shares held by Mooney & Partners Pty Ltd.

**** Mr J Harding is deemed to have an interest in 958,750 ordinary shares as trustee for the "The Harding Super Fund Account".

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 activity of the Company is in the development and commercialisation of the CETO wave energy technology.

OPERATING RESULTS

The consolidated loss of the Consolidated Group for the financial year ended 30 June 2014 amounted to \$4,176,921 (2013: consolidated loss \$3,303,572).

DIVIDENDS

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2014. No dividends were paid during the financial year.

REVIEW OF OPERATIONS

During this financial year, the Consolidated Group maintained its focus on the development and commercialisation of the CETO wave energy technology, primarily via the construction of the Perth Wave Energy Project (PWEP) on Garden Island, Western Australia. Significant progress was made on the PWEP with construction substantially completed and the onshore testing and commissioning phase commenced.

Carnegie drew down milestone grant payments for PWEP from the Western Australian Government Low Emissions Energy Development fund, the Federal Government's Emerging Renewables Program and the Federal Government's AusIndustry Clean Technology Innovation program.

- » Emerging Renewables Program - Carnegie drew down 15 milestone payments totalling \$8,809,821 for the completion of detailed design, the ordering of long lead items and construction milestones for foundations, pipeline, onshore plant and CETO units.
- » Low Emissions Energy Development Fund - Carnegie drew down 16 milestone payments totalling \$5,463,868 for the ordering of long lead items and construction milestones for foundations, pipeline, onshore plant and CETO units.
- » Clean Technology Innovation Program - Carnegie drew down 4 milestone payments totalling \$806,394 for the construction of the desalination pilot plant.

The Company announced plans for the next stage in the CETO development which will be the CETO 6 Project. The Project comprises the design, construction, deployment and demonstration of three CETO 6 units in a grid-connected, up to 3MW peak installed capacity wave energy project at Garden Island, Western Australia. Support for the Project was secured through a new \$11 million grant from the Federal Government's Emerging Renewables Program and by a five year \$20 million loan facility from the Australian Clean Energy Finance Corporation.

Carnegie also continued to pursue its strategic international project pipeline to prepare for the commercial roll out of the CETO technology.

In the UK, the Company's 100% owned subsidiary CETO Wave

Directors' Report / 30 June 2014

Energy UK Ltd (CWE UK) signed a Commitment Agreement for the final berth at Wave Hub in south west England, to support a grid connected demonstration of the CETO 6 technology, with a project capacity of up to 10MW. Wave Hub is the world's largest purpose built, pre-installed, grid connected wave energy demonstration facility, with a current export capacity of 30MW, which is upgradable to 48MW. The berth awarded allows Carnegie to connect CETO 6 units to the existing electrical subsea cables and grid connection already installed.

In addition to the above, during the financial year and to the date of this report, the Consolidated Group:

- » Raised \$4 million by way of convertible notes.
- » Raised \$1.6 million by way of a private placement to sophisticated investors.
- » Raised \$7.8 million via a Share Purchase Plan.
- » Received \$2.3 million cash payment under the Australian Federal Government's Research and Development Tax Incentive.
- » Completed the first milestone of the CETO 6 Project.
- » Maintained and expanded the CETO Intellectual Property portfolio globally.
- » Hosted at Carnegie's facilities a number of Australian and international dignitaries.

FINANCIAL POSITION

The net assets of the Consolidated Group have increased by \$8,161,706 to \$94,129,319 as at 30 June 2014. This is largely the result of the issuing of ordinary shares.

- » On 24 April 2014, the Company raised \$7,788,500 by issuing 155,770,000 ordinary shares under a Share Purchase Plan to existing shareholders at an issue price of \$0.05 per share.
- » On 24 April 2014, the Company raised \$1,559,438 by issuing 31,188,750 ordinary shares under a private placement to sophisticated investors predominantly who were existing shareholders at an issue price of \$0.05 per share.
- » On 18 November 2013, the Company raised \$4,000,000 by issuing 4,000 convertible notes under a private placement to sophisticated investors predominantly who were existing shareholders. The convertible notes mature on the 17 November 2015, pay a non-cash coupon of 6% and are convertible anytime at \$0.045 per share.
- » Continued expenditure on the development of CETO projects and capitalisation of CETO development expenditure.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes in the state of affairs of the Consolidated Group occurred during the financial year:

- i. On 30 June 2014 the Consolidated Group announced the award of a new \$11 million Australian Federal Government grant to support Carnegie's next wave power project the CETO 6 Project at Garden Island. The \$11 million grant was awarded from the Australian Renewable Energy Agency's Emerging Renewables Program.
- ii. On 30 June 2014 the Consolidated Group announced that the Perth Wave Energy Project was in the assembly and pre-deployment testing phase of the project. Furthermore it was announced that planned system commissioning will now not complete at the end of Quarter 2 in the interest of installing and commissioning the system in the optimum post-winter weather period. This allows an extended period of pre-deployment testing prior to CETO unit installation.
- iii. On 23 April 2014 the Consolidated Group announced that it had raised over \$9 million from an oversubscribed Share Purchase Plan and a private placement.
- iv. On 14 April 2014 the Consolidated Group announced that it had received a \$1 million cash payment from a gold royalty held by the Consolidated Group at no cost.
- v. On 9 April 2014 the Consolidated Group announced that the CETO 5 Buoyant Actuators had been officially unveiled by the Hon Ian Macfarlane MP, Federal Energy Minister, and Ivor Frishknecht, CEO of ARENA.
- vi. On 2 April 2014 the Consolidated Group announced that it had been awarded the final berth at Wave Hub in south west England, to support a grid connected demonstration of the CETO 6 technology, with a project capacity of up to 10MW. Wave Hub is the world's largest purpose built, pre-installed, grid connected wave energy demonstration facility, with a current export capacity of 30MW, which is upgradable to 48MW. The berth awarded allows Carnegie to connect its CETO 6 units to the existing electrical subsea cables and grid connection already installed.
- vii. On 21 March 2014 the Consolidated Group announced plans for the commercial generation of the CETO technology the CETO 6 unit. The CETO 6 unit will target a 1MW (1000kW) power capacity, some four times of the current CETO 5 generation being used in the Perth Project. The increased capacity, combined with superior efficiency, delivers significantly reduced capital costs and, when deployed in large commercial

Directors' Report / 30 June 2014

size projects, is cost competitive in a range of markets globally.

- viii. On 19 March 2014 the Consolidated Group announced that it had signed a five year \$20 million loan facility from the Australian Clean Energy Finance Corporation. The facility is to fund the CETO 6 Project.
- ix. On 6 March 2014 the Consolidated Group announced that the pipeline for the Perth Wave Energy project was complete.
- x. On 18 February 2014 the Consolidated Group announced that the subsea foundations for the Perth Wave Energy project were complete.
- xi. On 18 November 2013 the Consolidated Group announced that it had raised \$4 million through the issue of 2 year convertible notes.
- xii. On 23 October 2013 the Consolidated Group announced a cash refund receipt of \$2.3 million from the Research & Development Tax Concession.

SIGNIFICANT EVENTS SUBSEQUENT TO YEAR END

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

- » On 11 August 2014 the Consolidated Group announced the receipt of the first government grant payment of \$50,000 for the CETO 6 Project under the awarded \$11 million Federal Government grant from the Australian Government's Emerging Renewables Program (ERP).
- » On 6 August 2014 the Consolidated Group announced that it had received a gold mining royalty payment from Higginsville gold mining operations operated by MetalsX Limited of \$298,996 for the quarter ended 30 June 2014.
- » On 25 July 2014 the Consolidated Group announced that it will partner with the University of Adelaide on a \$1.8 million project part funded by an Australian Research Council (ARC) Linkage Grant to research and develop control strategies for wave energy converters.
- » On 4 July 2014 the Consolidated Group announced that it had issued 50,250,000 options under the Employee Incentive Option Scheme.

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 Consolidated Group, the results of

those operations or the state of affairs of the Consolidated Group 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

During the year, the Company successfully completed several significant technical and commercial milestones in the grid connected Perth Wave Energy Project (PWEP) with construction now substantially complete. The project is now in the onshore testing and assembly phase. Additionally the Company announced plans for the commercial generation of the CETO technology and the next CETO project, the CETO 6 project at Garden Island Western Australia. The Company has already secured substantial funding for the project through an \$11m government grant and a five year \$20 million loan facility. This now allows Carnegie to plan with continued confidence, its future as the developer and owner of the CETO technology and to exploit its commercial potential globally.

The Company's immediate focus is now on completing the testing and commissioning of PWEP, the commercial scale grid connected and water supply infrastructure connected CETO Wave Energy demonstration project. In parallel, the design of the CETO 6 project will be progressed.

Carnegie expects that its business model will capture value from a combination of "build-own-operate" projects as well as from site development and supplying and licensing the CETO technology. As the technology developer, Carnegie may aim to capture additional value by utilising its inherent knowledge and know-how of CETO by offering operations and maintenance services at commercial rates to CETO wave projects globally.

ENVIRONMENTAL ISSUES

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

Directors' Report / 30 June 2014

SHARE OPTIONS

At the date of this report, there were 50,000,000 options outstanding in respect of unissued ordinary shares to Executive Directors and a further 65,350,000 options held by employees and third parties.

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 \$26,125.

REMUNERATION REPORT - AUDITED

This report details the nature and amount of remuneration for each Director of Carnegie Wave Energy Limited and for the specified executives.

Remuneration Policy

The remuneration policy of Carnegie Wave Energy 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 Consolidated Group's financial results. The Board of Carnegie Wave Energy 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 Consolidated Group, 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 executives of the Consolidated Group 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 Remuneration Committee in consultation with the Board of Directors has chosen to adopt an equity based approach to remunerating executive staff and employees for the 2012 financial year and beyond. The Company utilised the Employee Share Option Plan as adopted by shareholders in November 2010 (re-affirmed by shareholders on 1 November 2013) as the mechanism by which options may

be issued to executive management and staff to adequately incentivise these individuals.

The Remuneration Committee reviews executive packages annually by reference to the Consolidated Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries and then considers the justification of any salary review or participation in the Employee Share Option Plan.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the past year's growth in shareholders' value over the financial year and by contrast with its peers and industry sector. All 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 Consolidated Group.

Directors' Report / 30 June 2014

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

During the year, the Company focused its efforts on both the continuing development of the CETO Wave Technology and on developing commercial opportunities for the deployment of CETO wave projects.

Over the last 12 months the Company continued its spend on the Perth Wave Energy Project and also drew down 16 times on its LEED grant from the Western Australian Government, fifteen times from the federal government grant from the Australian Renewable Energy Agency and four times from the Federal Government's AusIndustry Clean Technology Innovation program. The Company's share price has remained impacted by the continued global financial uncertainty and policy uncertainty in relevant markets. In spite of this, the Company has maintained and increased its ability to raise capital to continue the CETO and commercial site development with an oversubscribed Share Purchase Plan in April 2014.

	2010	2011	2012	2013	2014
	\$	\$	\$	\$	\$
Revenue	398,374	336,274	430,109	351,917	1,913,452
Net loss after tax	(4,246,705)	(6,772,325)	(4,521,876)	(3,303,572)	(4,176,921)
Share price at year end	0.080	0.076	0.027	0.030	0.050

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

Details of Remuneration for Year Ended 30 June 2014

	Actual rewards received in the period			Actuarial valuation of potential future rewards			Performance	
	Short-term benefits		Post Employment Benefits - Super	Other long term benefits	Share based payments			
	Cash salary, leave paid & fees	Non Cash Benefits						
	\$	\$	\$	\$	\$	\$	\$	
John Leggate	127,555	-	-	-	105,400	-	-	
Grant Mooney*	171,000	-	6,937	-	316,200	-	-	
Mike Fitzpatrick	57,500	-	-	-	105,400	-	-	
Jeffrey Harding	57,500	-	5,318	-	105,400	-	-	
Kieran O'Brien	159,842	-	-	-	210,800	-	-	
Michael Ottaviano	581,725	16,671	17,774	53,962	876,855	-	-	
Greg Allen	235,320	-	19,917	12,489	54,429	-	-	
Total	1,390,442	16,671	49,946	66,451	1,774,848	-	-	

* Fees include Company Secretarial fees paid to Mooney & Partners Pty Ltd, a company associated with Grant Mooney.

Directors' Report / 30 June 2014

Details of Remuneration for Year Ended 30 June 2013

	Actual rewards received in the period			Actuarial valuation of potential future rewards		Performance	
	Short-term benefits		Post Employment Benefits - Super	Other long term benefits	Share based payments		
	Cash salary, leave paid & fees	Non Cash Benefits					
	\$	\$	\$	\$	\$	\$	
John Leggate	52,802	-	-	-	-	-	
Grant Mooney*	127,000	-	4,950	-	-	-	
Mike Fitzpatrick	32,397	-	-	-	-	-	
Jeffrey Harding	55,000	-	4,950	-	-	-	
Kieran O'Brien	120,864	-	-	-	-	-	
Michael Ottaviano	443,986	13,150	15,039	46,173	150,450	-	
Greg Allen	229,000	-	18,809	14,756	-	-	
Total	1,061,049	13,150	43,748	60,929	150,450	-	

* Fees include Company Secretarial fees paid to Mooney & Partners Pty Ltd, a company associated with Grant Mooney.

Performance Income as a Proportion of Total Remuneration

No performance based incentive bonus was awarded or paid during the year.

Options Issued as Part of Remuneration for the Year Ended 30 June 2014

40,000 options were issued to Directors during the financial year further to shareholder approval obtained on 1 November 2013.

35,000,000 shares were issued to the Managing Director Dr Michael Ottaviano during the financial year under the Carnegie Wave Energy Management Incentive Equity Plan, further to shareholder approval obtained on 1 November 2013.

Employment Contracts Of Directors

The employment conditions of the Non-Executive Directors, Executive Director, Kieran O'Brien, the Chairman, Grant Mooney and Managing Director, Michael Ottaviano are formalised in Service Contracts. The Managing Director, Michael Ottaviano, is contracted under a contract for \$658,682 per annum including superannuation plus a fully serviced company vehicle. The Executive Director, Kieran O'Brien, is under a contract for €96,000 per annum. Non-Executive Director, John Leggate, is under a contract for €42,240 per annum. Other Non-Executive Directors, Jeffrey Harding and Michael Fitzpatrick are under contracts for \$57,500 per annum. The above contracts are effective from 1 July 2014.

There is a contract for service between the Company and Mooney & Partners Pty Ltd, an entity associated with Chairman Grant Mooney, commencing from 9 October 2009 for 3 years whereby Mr Mooney provides Company Secretarial services and receives a fee of \$96,000 per annum (exclusive of GST). As the Chairman, he receives a base salary of \$75,000 per annum effective from 1 July 2014.

The employment contracts for Grant Mooney and Michael Ottaviano stipulate three months resignation period. The Company may terminate an employment contract without 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

End of remuneration report

NON-AUDIT SERVICES

The external auditors were not engaged for non-audit services during the financial year ended 30 June 2014.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2014 has been received and can be found on page 38.

Directors' Report / 30 June 2014

DIRECTORS' MEETINGS

There were 9 Directors' meetings held during the financial year ended 30 June 2014. Attendances were as follows:

Director	Number Attended		
	Directors		Audit Committee
	No. Meetings attended	No. Meetings held during time in office	Remuneration Committee
Grant Mooney	7	7	1
Dr Michael E Ottaviano	7	7	NA
Jeffrey Harding	7	7	2
Kieran O'Brien	7	7	NA
John Leggate	7	7	NA
Michael Fitzpatrick	7	7	2

There were a total of 5 circular resolutions passed by the Board of Directors during the financial year.

Signed on 28th August 2014 in accordance with a resolution of the Board of Directors.



DR MICHAEL EDWARD OTTAVIANO
Managing Director



GRANT JONATHAN MOONEY
Director

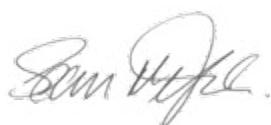
AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Carnegie Wave Energy Ltd for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

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



CROWE HORWATH PERTH



SEAN MCGURK
Partner

Signed at Perth, 28 August 2014

Statement of Comprehensive Income

For Year Ended 30 June 2014

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR YEAR ENDED 30 JUNE 2014

	Note	Consolidated Group	
		2014	2013
		\$	\$
Royalty income	2	1,623,957	-
Other income	2	289,495	351,917
Employee benefits expense		(415,855)	(693,179)
Depreciation expense		(71,205)	(66,743)
Occupancy expense		(256,512)	(192,295)
Consultancy expenses		(224,421)	(115,283)
Research expenses		(167,163)	(15,079)
Executive and Non Executive Directors fees		(1,096,754)	(798,140)
Employee Share based payments	28	(2,082,121)	(489,387)
Finance costs		(357,933)	(4,763)
Company secretarial expenses		(96,000)	(72,000)
Administrative expenses		(1,287,657)	(1,193,838)
Other expenses from ordinary activities		(34,752)	(14,782)
Loss before income tax	3	(4,176,921)	(3,303,572)
Income tax benefit/(expense)	4	-	-
Loss for the year		(4,176,921)	(3,303,572)
Other comprehensive income			
Exchange differences on translating foreign controlled entities and foreign currencies		85,931	7,435
Income tax relating to components of other comprehensive income		-	-
Total comprehensive loss for the year		(4,090,990)	(3,296,137)
Loss attributable to:			
Members of the parent entity		(4,176,921)	(3,303,572)
Total comprehensive loss attributable to:		-	-
Members of the parent entity		(4,090,990)	(3,296,137)
Earnings per share			
Basic loss per share (cents per share)	7	(0.270)	(0.272)
Diluted loss per share (cents per share)	7	(0.270)	(0.272)

The accompanying notes form part of these financial statements.

Statement of Financial Position

For Year Ended 30 June 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated Group	
		2014	2013
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	14,177,509	11,893,898
Trade and other receivables	9	856,744	340,800
Other assets	14	26,340	-
TOTAL CURRENT ASSETS		15,060,593	12,234,698
NON-CURRENT ASSETS			
Trade and other receivables	9	604,275	316,039
Available for sale financial assets	10	12,414	12,414
Property, plant and equipment	12	414,318	285,080
Intangible assets	13	86,159,659	75,954,530
Other non-current assets	14	138,555	-
TOTAL NON-CURRENT ASSETS		87,329,221	76,568,063
TOTAL ASSETS		102,389,814	88,802,761
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	3,468,375	1,454,251
Short-term provisions	18	1,183,652	226,575
Other current liabilities	16	-	1,045,835
TOTAL CURRENT LIABILITIES		4,652,027	2,726,661
NON-CURRENT LIABILITIES			
Trade and other payables	15	28,360	36,777
Long-term provision	18	104,978	71,710
Long-term borrowings	17	3,475,130	-
TOTAL NON-CURRENT LIABILITIES		3,608,468	108,487
TOTAL LIABILITIES		8,260,495	2,835,148
NET ASSETS		94,129,319	85,967,613
EQUITY			
Issued capital	19	142,656,965	132,968,498
Reserves	20	12,823,425	10,173,265
Accumulated losses		(61,351,071)	(57,174,150)
TOTAL EQUITY		94,129,319	85,967,613

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For Year Ended 30 June 2014

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE 2014

Consolidated Group	Note	Issued Capital	Accumulated Losses	Foreign Currency Reserve	Option Reserve	Total
Balance at 1.7.2012		119,325,908	(53,870,578)	(7,354)	9,597,036	75,045,012
Comprehensive loss						
Loss for the year	-		(3,303,572)	-	-	(3,303,572)
Other comprehensive income	-		-	7,435	-	7,435
Total comprehensive loss for the year	-		(3,303,572)	7,435	-	(3,296,137)
Transactions with owners						
Share capital issued during the year		14,028,000	-	-	-	14,028,000
Capital raising costs		(385,410)	-	-	-	(385,410)
Equity portion of convertible note	-	-	-	-	-	-
Share based payment expense	-	-	-	576,148	576,148	576,148
Total transactions with owners		13,642,590	-	-	576,148	14,218,738
Balance at 30.6.2013		132,968,498	(57,174,150)	81	10,173,184	85,967,613
Balance at 1.7.2013		132,968,498	(57,174,150)	81	10,173,184	85,967,613
Comprehensive loss						
Loss for the year	-		(4,176,921)	-	-	(4,176,921)
Other comprehensive income	-		-	85,931	-	85,931
Total comprehensive loss for the year	-		(4,176,921)	85,931	-	(4,090,990)
Transactions with owners						
Share capital issued during the year		9,799,076	-	-	-	9,799,076
Capital raising costs		(110,609)	-	-	-	(110,609)
Equity portion of convertible note	-	-	-	482,108	482,108	482,108
Share based payment expense	-	-	-	2,082,121	2,082,121	2,082,121
Total transactions with owners		9,688,467	-	-	2,564,229	12,252,696
Balance at 30.6.2014		142,656,965	(61,351,071)	86,012	12,737,413	94,129,319

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For Year Ended 30 June 2014

CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR ENDED 30 JUNE 2014

	Notes	Consolidated Group	
		2014	2013
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Royalties		1,322,581	-
Interest received		265,225	335,026
Interest paid		(21,924)	(4,762)
Payments to suppliers and employees		(6,975,790)	(5,633,290)
Receipts from R&D Tax Rebate		2,263,825	1,167,397
Receipts from Government grant funding		14,034,254	2,106,788
Net cash (used in) operating activities	24	10,888,171	(2,028,841)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for development of asset		(21,608,609)	(4,479,620)
Purchase of property, plant and equipment		(124,897)	(51,197)
Proceeds from sale of property, plant and equipment		-	14,923
Purchase of investments		-	(1)
Proceeds from sale of investments		-	8,514
Net cash (used in)/from investing activities		(21,733,506)	(4,507,381)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Issue of Shares		9,212,743	13,379,350
Proceeds from Issue of Convertible Note		3,830,505	-
Net cash provided by financing activities		13,043,248	13,379,350
Net increase/(decrease) in cash held		2,197,913	6,843,128
Cash and cash equivalents at beginning of financial year		11,893,898	5,044,836
Effect of exchange rate fluctuations on cash held		85,698	5,934
Cash and cash equivalents at end of financial year	8	14,177,509	11,893,898

The accompanying notes form part of these financial statements.

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Carnegie Wave Energy Limited ("the company") is a company domiciled in Australia. The consolidated financial statements of the company as at and for the twelve months ended 30 June 2014 comprise the Company and its subsidiaries ('Consolidated Group').

The separate financial statements of the Company, Carnegie Wave Energy Limited, have not been presented within this financial report as permitted by the Corporations Act 2001. The Group is a 'for profit' entity for financial reporting purposes under Australian Accounting Standards.

The consolidated financial statements were authorised for issue by the Board of Directors on 28th August 2014.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (AASB), adopted by 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.

New and amended accounting standards and interpretations

In the current year, the Group has adopted all of the new and revised Standards and interpretations issued by the Australian Accounting Standards Board effective as of 30 June 2014, including:

- AASB 10 Consolidated Financial Statements

AASB 10 establishes a new control model that applies to all entities. It replaces parts of *AASB 127 Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and *UIG-112 Consolidation - Special Purpose Entities*.

The new control model broadens the situations when an entity is considered to be controlled by another entity and

includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

- AASB 12 Disclosures of Interests in Other Entities

AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.

- AASB 13 Fair Value Measurement

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

- AASB 119 Employee Benefits

The revised standard changes the definition of short-term employment benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

Notes to The Financial Statements

For Year Ended 30 June 2014

Accounting Policies

a. Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Carnegie Wave Energy Limited at the end of the reporting period.

A controlled entity is any entity over which Carnegie Wave Energy Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 11 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

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 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.

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, associates, 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, 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

Notes to The Financial Statements

For Year Ended 30 June 2014

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 Consolidated Group 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 Consolidated Group commencing from the time the asset is held ready for use.

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

Class of Fixed Asset	Depreciation Rate
Plant and equipment	1.0% – 33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position 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.

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.

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. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- a. The amount at which the financial asset or financial liability is measured at initial recognition;
- b. Less principal repayments;
- c. Plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- d. Less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate

Notes to The Financial Statements

For Year Ended 30 June 2014

an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or as being subject to the requirements of accounting standards specifically applicable to financial instruments.

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.

ii. *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor determinable payments.

iii. *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

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.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or

expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

f. *Borrowings*

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a financial liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the application of the effective interest method is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

g. *Finance costs*

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

- interest on the bank overdraft
- interest on short-term and long-term borrowings
- interest on finance leases

h. *Impairment of Assets*

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries or associates. If such an indication exists, an impairment test is carried out on the

Notes to The Financial Statements

For Year Ended 30 June 2014

asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed immediately in the profit or loss unless the asset is carried at a re-valued amount in accordance with another accounting standard.

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.

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

i. Intangible Asset - Acquired Intellectual Property and Development costs

An intangible asset arising from externally acquired intellectual property and development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of acquired intellectual property and the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

The carrying value of an intangible asset arising from acquired intellectual property and development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

Acquired intellectual property and development cost in respect of an asset available for use have a finite useful life and are amortised on a systematic basis on the economic benefits over the useful life of the project.

j. 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.

k. 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.

l. Equity-settled compensation

(i) Equity-settled

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.

Notes to The Financial Statements

For Year Ended 30 June 2014

The cumulative cost recognised until settlement is a liability and the periodic determination of this liability is as follows:

At each reporting date between grant and settlement, the fair value of the benefit is determined

- a During the vesting period, the liability recognised at each reporting date is the fair value of the benefit at that date multiplied by the expired portion of the vesting period
- b From the end of the vesting period until settlement, the liability recognised is the full fair value of the liability at the reporting date
- c All changes in the liability are recognised in profit or loss for the period. The fair value of the liability is determined, initially and at each reporting date until it is settled, by applying the Black-Scholes option pricing model, taking into account the terms and conditions on which the benefit was granted, and to the extent to which employees have rendered service to date.

For shares acquired under limited recourse loans, the Group is required to recognise within the income statement a remuneration expense measured at the fair value of the shares inherent in the issue to the eligible person, with a corresponding increase to a share-based payments reserve in equity. The fair value is measured at grant date and recognised when the eligible person becomes unconditionally entitled to the shares, effectively on grant. A loan receivable is not recognised.

m. 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.

n. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks.

o. Revenue and Other Income

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

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

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

Royalty income is recognised on an accrual basis. Royalty income is received on a quarterly basis and any under or over accrual applicable to previously recognised royalty income is adjusted for based on the receipt of the royalty income entitlement.

p. Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(h) for further discussion on the determination of impairment losses.

q. Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

r. 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 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 Statement of Financial Position 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.

s. Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Where grant conditions are not yet fully met, government grants will be treated as unearned government funding in the balance sheet. Grants relating to expense items are recognised as an offset against these expenses to match the costs they are compensating.

Notes to The Financial Statements

For Year Ended 30 June 2014

Grants relating to items capitalised as assets are recognised as an offset against the asset to match the costs they are compensating.

t. Research and Development Tax Incentive

Research and development tax refunds are recognised as an offset against intangible assets on a receipt basis.

u. Earnings/(loss) per share

Basic Earnings/(Loss) per share is calculated as net profit/(loss) attributable to members of the Consolidated Group, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares on issue throughout the reporting period.

Diluted earnings/(loss) per share is calculated as net profit attributable to members of the Consolidated Group, adjusted for, the dilutive effects of any outstanding unlisted options over ordinary shares in the parent.

v. Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

w. Comparative Figures

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

When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

x. New Accounting Standards for Application in the Current Period

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

y. New Accounting Standards for Application in Future Periods

The AASB has issued new and amended Accounting Standards

and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

AASB 9: Financial Instruments (applicable for annual reporting periods commencing on or after 1 January 2017).

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact of these pronouncements on its financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.
- AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial

Notes to The Financial Statements

For Year Ended 30 June 2014

Liabilities (applicable for annual reporting periods commencing on or after 1 January 2014). This Standard adds application guidance to AASB 132: Financial Instruments: Presentation to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. This Standard is not expected to significantly impact the Group's financial statements.

- AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. This Standard is not expected to significantly impact the Group's financial statements.

- AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and amends AASB 139 'Financial Instruments: Recognition and Measurement' to permit continuation of hedge accounting in circumstances where a derivative (designated as hedging instrument) is novated from one counter party to a central counterparty as a consequence of laws or regulations. This Standard is not expected to impact the Group's financial statements.

- Annual Improvements to IFRSs 2010-2012 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends

AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

- Annual Improvements to IFRSs 2011-2013 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

Notes to The Financial Statements

For Year Ended 30 June 2014

z. Significant accounting judgements, estimates and assumptions

Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of development asset

The Group assesses impairment of all assets (including intangible assets) at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger

exists the recoverable amount of the asset is determined. Impairment test is also carried out for all intangible assets with indefinite useful life (Note 13).

Share based payment transactions

The Consolidated Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instrument at the date at which they are granted. The fair value is determined by using Black Scholes formula taking into account the terms and conditions upon which the instruments are granted, as disclosed in Note 28.

NOTE 2: REVENUE AND OTHER INCOME

		Consolidated Group	
	Notes	2014	2013
		\$	\$
Royalty income	a	1,623,957	-
Other income			
Interest received	b	291,702	335,026
Sale of fixed assets		-	14,265
Sale of Investments		-	8,512
Loss on foreign exchange		(2,207)	(5,886)
		289,495	351,917
a.	As a result of activities prior to the development of the CETO technology, the company still holds a mining royalty with respect to a gold reserve in Western Australia. Under the royalty agreement the company receives a payment per ounce of gold extracted by third parties. The past and any future royalty income stream requires no expenditure or resources by Carnegie.		
b.	Interest revenue from: • Bank deposits		
		291,702	335,026
Total interest revenue		291,702	335,026

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 3: LOSS FOR THE YEAR

	Notes	2014	2013
		\$	\$
a. Expenses			
Depreciation of non current assets – property, plant and equipment		71,205	66,743
Asset write down		-	-
Doubtful debts expense		472	439
Movement in provision for doubtful debts:			
• wholly-owned subsidiaries		472	439
Net movement in provisions		472	439
Net loss on disposal of property, plant and equipment		-	(13,065)

NOTE 4: INCOME TAX EXPENSE

	Notes	2014	2013
		\$	\$
a. The components of tax expense comprise:			
Current tax		3,750,244	-
Deferred tax		(3,750,244)	-
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 (benefit) on profit from ordinary activities before income tax at 30% (2013: 30%)			
- Consolidated Group		(1,227,297)	(988,841)
Add:			
Tax effect of:			
- Other non-allowable items		4,128	3,352
- Tax losses not recognised		(3,750,244)	608,365
- Share options expensed during year		624,636	146,816
- Movement in deferred tax balances not recognised		4,348,777	230,308
Less:			
Tax effect of:			
- Capital profits not subject to income tax		-	-
- Other allowable items		-	-
Income tax attributable to entity		-	-
Current tax benefit		-	-

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 4: INCOME TAX EXPENSE (cont.)

The Group has tax losses carried forward of \$37,166,811 (2013: \$49,667,625). The tax losses do not expire under current tax legislation. Deferred tax asset has not been recognised in respect of tax losses carried forward as a formal assessment of the recoverability of the tax losses under the current tax legislation has not been performed.

NOTE 5: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP)

Refer to the Remuneration Report contained in the Report of the Directors for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2014.

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

Key Management Person	Position
Grant J Mooney	Non-Executive Chairman
Michael Ottaviano	Managing Director
Kieran O'Brien	Executive Director
Michael Fitzpatrick	Non- executive Director
Jeffrey Harding	Non-executive Director
John Leggate	Non-executive Director
Greg Allen	Chief Operating Officer

The totals of remuneration paid to KMP of the Company and the Group during the year are as follows:

	2014	2013
	\$	\$
Short term employee benefits	1,407,113	1,074,199
Share based payments	1,774,484	150,450
Post employment benefits	49,946	43,748
	3,231,543	1,268,397

b. Options and Rights Holdings

Movement in equity settled options held by key management personnel is detailed below:

	Balance 1.7.2013	Granted as Compensation	Options Exercised	Net Change Other	Balance 30.6.2014
Michael Ottaviano	30,000,000	-	-	(30,000,000)	-
Kieran O'Brien	3,000,000	10,000,000	-	(3,000,000)	10,000,000
Michael Fitzpatrick	10,000,000	5,000,000	-	-	15,000,000
Grant Mooney	-	15,000,000	-	-	15,000,000
John Leggate	-	5,000,000	-	-	5,000,000
Jeffrey Harding	-	5,000,000	-	-	5,000,000
Greg Allen	10,000,000	-	-	-	10,000,000
Total	53,000,000	40,000,000	-	(33,000,000)	60,000,000

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (cont'd)

Details of equity settled options for key management personnel outstanding at balance sheet date are as follows:

	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
Key Management Personnel							
Grant Mooney	15,000,000	15,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
Kieran O'Brien	10,000,000	10,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
Jeffrey Harding	5,000,000	5,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
John Leggate	5,000,000	5,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
Michael Fitzpatrick	5,000,000	5,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
Michael Fitzpatrick	10,000,000	10,000,000	3 Dec 2012	2.07 cents	3.0 cents	3 Dec 2012	27 Nov 2014
Greg Allen	5,000,000	10,000,000	5 Nov 2012	1.28 cents	5.0 cents	4 Nov 2013	4 Nov 2015
	55,000,000	60,000,000					

All options were granted for nil consideration.

c. Shareholdings

	Number of Shares held by Key Management Personnel				
	Balance 1.7.2013	Received as Compensation	Options Exercised	Net Change Other	Balance 30.6.2014
Grant J Mooney	2,553,651	-	-	-	2,553,651
Michael Ottaviano	4,790,000	-	-	35,000,000	39,790,000
Kieran O'Brien	170,000	-	-	-	170,000
Michael Fitzpatrick	115,365,359	-	-	-	115,365,359
Jeffrey Harding	758,750	-	-	200,000	958,750
John Leggate	100,000	-	-	-	100,000
Total	123,737,760	-	-	35,200,000	158,937,760

NOTE 6: AUDITORS' REMUNERATION

	Consolidated Group	
	2014	2013
Remuneration of the auditor of the parent entity for:	\$	\$
• auditing or reviewing the financial report	79,000	78,700

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 7: EARNINGS PER SHARE

	Consolidated Group	
	2014	2013
Basic loss per share (cents per share)	(0.270)	(0.272)
Diluted loss per share (cents per share)	(0.270)	(0.272)
<hr/>		
(a) Reconciliation of earning to Net Loss		
Loss used in the calculation of basic EPS	(4,176,921)	(3,303,572)
Loss used in the calculation of diluted EPS	(4,176,921)	(3,303,572)
<hr/>		
(b) Weighted average number of ordinary shares used in calculation of weighted average earnings per share	1,547,179,324	1,214,794,847

As at 30 June 2013 and 30 June 2014, the outstanding options were not dilutive as the weighted average exercise price of the options were higher than the weighted average share price for the year. There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

NOTE 8: CASH AND CASH EQUIVALENTS

	Consolidated Group	
	2014	2013
	\$	\$
Cash on hand	681	484
Cash at bank	14,176,828	11,893,414
	<hr/>	<hr/>
	14,177,509	11,893,898

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 9: TRADE AND OTHER RECEIVABLES

Consolidated Group	Gross Amount	Past due but not impaired (days overdue)			Within trade terms
		1-30	31-60	61+	
2014	\$	\$	\$	\$	\$
CURRENT					
Trade receivables	19,493	17,308	-	2,185	-
Prepayments	428,451	-	-	-	428,451
Accrued revenue	327,852	-	-	-	327,852
Other receivables	9,184	-	-	-	9,184
Security deposits	71,764	-	-	-	71,764
	856,744	17,308	-	2,185	837,251
NON CURRENT					
Security deposits	604,275	-	-	-	604,275
	604,275	-	-	-	604,275
2013	Gross Amount	Past due but not impaired (days overdue)			Within trade terms
		1-30	31-60	61+	
2013	\$	\$	\$	\$	\$
CURRENT					
Trade receivables	25,459	24,860	-	599	-
Prepayments	49,931	-	-	-	49,931
Accrued revenue	-	-	-	-	-
Other receivables	265,410	-	-	-	265,410
	340,800	24,860	-	599	315,341
NON CURRENT					
Security deposits	316,039	-	-	-	316,039
	316,039	-	-	-	316,039

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 10: AVAILABLE FOR SALE FINANCIAL ASSETS

	Notes	Consolidated Group	
		2014	2013
		\$	\$
Available-for-sale financial assets	a	12,414	12,414
a. Available-for-sale Financial Assets Comprise			
Unlisted investments, at cost			
- shares in other corporations		12,414	12,414
		12,414	12,414

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 a result, all unlisted investments are reflected at cost.

NOTE 11: INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1:

	Country of Incorporation	Percentage Owned (%)*	
		2014	2013
Subsidiaries of Carnegie Wave Energy Limited:			
CMA Nominees Pty Ltd	Australia	100	100
New Millennium Engineering Pty Ltd	Australia	100	100
Carnegie Recreational Watercraft Pty Ltd	Australia	100	100
CETO IP (Australia) Pty Ltd	Australia	100	100
CETO Wave Energy Ireland	Ireland	100	100
CETO Wave Energy UK	United Kingdom	100	100
CETO Wave Energy Chile	Chile	100	100
Pacific Coastal Wave Energy Corp.	Canada	95	95

* Percentage of voting power is in proportion to ownership

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group	
	2014	2013
	\$	\$
PLANT AND EQUIPMENT		
Plant and equipment:		
At cost	1,049,708	849,266
Accumulated depreciation	(635,390)	(564,186)
Total plant and equipment	<u>414,318</u>	<u>285,080</u>

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
2014	\$
Consolidated Group:	
Balance at the beginning of year	285,080
Additions	200,443
Disposals	-
Impairment	-
Depreciation expense	(71,205)
Carrying amount at the end of year	<u>414,318</u>
2013	
Consolidated Group:	
Balance at the beginning of year	264,052
Additions	96,316
Disposals	(8,545)
Impairment	-
Depreciation expense	(66,743)
Carrying amount at the end of year	<u>285,080</u>

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 13: INTANGIBLE ASSETS

	Consolidated Group	
	2014	2013
	\$	\$
Intellectual Property (CETO IP)		
Cost	55,989,877	55,989,877
Net carrying value	55,989,877	55,989,877
Development costs – since acquisition		
Cost	30,169,782	19,964,653
Accumulated amortisation and impairment	-	-
Net carrying value	30,169,782	19,964,653
Total intangibles	86,159,659	75,954,530

	Movements in Carrying Amounts	Intellectual Property (CETO IP)	Development Costs
	\$	\$	\$
Consolidated Group:			
Year ended 30 June 2013			
Balance at the beginning of year	55,989,877	14,642,357	
Additions	-	-	
Development cost incurred	-	5,322,296	
Closing value at 30 June 2013	55,989,877	19,964,653	
Year ended 30 June 2014			
Balance at the beginning of year	55,989,877	19,964,653	
Additions	-	-	
Development cost incurred	-	10,205,129	
Closing value at 30 June 2014	55,989,877	30,169,782	

The recoverable amount of the CETO Technology is based on 'value in use' as defined under AASB 136: Impairment of Assets, which has been estimated to have a greater value than its carrying value of \$86 million, accordingly no impairment loss has been recognised.

Value in use was determined by discounting the forecasted future net cash flows generated from the sale of the CETO Technology. Cash flows are analysed over a 25 year period approved by management for the years from 2014 to 2039. The period is consistent with the long term value of a new infrastructure technology and is consistent with comparable energy industry project lives.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The calculation of the value in use is based on the following key assumptions:

- » The Company will earn a license fee and profit margin based as a percentage of the manufacturing cost of CETO units sold;
- » Payment for CETO units will be received in advance;
- » Forecast sales are based on a specific and static market share of the world's wave energy capacity annually to 2039; and

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 13: INTANGIBLE ASSETS (cont'd)

- » The Consolidated Group will have access to sufficient funding to complete the CETO Development through to commercialisation (See Note 22);
- » A post-tax discount rate adjusted to incorporate risks associated with commercialising a wave energy technology of 20.7%.

Sensitivity

As disclosed in Note 1, the directors have made judgements and estimates in respect of impairment testing of intangible assets. Should these judgements and estimates not occur the resulting intangible assets carrying amount may decrease. The sensitivities are as follows:

- (a) Forecast sales of the CETO technology would need to decrease by more than 24% before the intangible assets would need to be impaired, with all other assumptions remaining constant.
- (b) The discount rate would be required to increase by more than 3 percentage points (a proportional increase of 14.5%) before the intangible asset would need to be impaired, with all other assumptions remaining constant.

If there are other negative changes in the other assumptions on which the recoverable amount of intangible assets is based, this could result in a further impairment charge for the intangible assets.

NOTE 14: OTHER ASSETS

	Consolidated Group	
	2014	2013
	\$	\$
CURRENT		
Deferred expenses	26,340	-
	26,340	-
NON CURRENT		
Deferred expenses	138,555	-
	138,555	-

NOTE 15: TRADE AND OTHER PAYABLES

	Consolidated Group	
	2014	2013
	\$	\$
CURRENT		
Trade creditors	2,302,860	343,800
Accruals	1,116,404	1,084,307
Other	49,111	26,145
	3,468,375	1,454,252
NON CURRENT		
Trade creditors	28,360	36,777

Notes to The Financial Statements

For Year Ended 30 June 2014

	28,360	36,777
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NOTE 16: OTHER CURRENT LIABILITIES

	Consolidated Group	
	2014	2013
	\$	\$
Unearned government funding received	-	1,045,835

NOTE 17: BORROWINGS

	Consolidated Group	
	2014	2013
	\$	\$
Convertible note*	3,475,130	-

	2014	2013
	\$	\$
Convertible note		
Balance at the beginning of the period	-	-
Consideration received	4,000,000	-
Equity component	(506,693)	-
Conversion to equity during the period	(43,625)	-
Unwinding of finance costs	194,944	-
Issue costs	(169,496)	-
	3,475,130	-

*On the 18th November 2013 the Company completed a capital raising of \$4 million by issuing 4,000 Convertible Notes at an issue price of \$1,000 each ("Notes"). The Notes mature on 18 November 2015, pay a non-cash quarterly coupon of 6% p.a. Subsequent to the issue of the Notes, on the 19th March 2014 the Company signed a five year loan facility for up to \$20 million with the Australian Clean Energy Finance Corporation. As a result of this facility the terms of the Notes were modified to remove the Company's right to mandatory conversion to equity, to change the equity conversion price from 5.5 cents to 4.5 cents and to remove the Company's right to force redemption after 18 months.

NOTE 18: PROVISIONS

	Consolidated Group	
	2014	2013
	\$	\$
Current	1,183,652	226,575
Non-current	104,978	71,710
	1,288,630	298,285

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 18: PROVISIONS (cont'd)

Consolidated Group	Annual and Long Service Leave	Total
	\$	\$
Opening balance at 1 July 2013	298,285	298,285
Additional provisions	140,345	140,345
Unused amounts reversed	-	-
Balance at 30 June 2014	438,630	438,630

Provision for Long-term Employee Benefits

A provision has been recognised for employee entitlements relating to long service leave (LSL). 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.

NOTE 19: ISSUED CAPITAL

	Consolidated Group	
	2014	2013
	\$	\$
1,720,450,293 (2013: 1,489,742,595) fully paid ordinary shares	142,656,965	132,968,498
	142,656,965	132,968,498

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

a.	2014.	2013
	No	No.
Ordinary shares		
At the beginning of reporting period	1,489,742,595	1,042,615,269
Shares issued during the year		
– 25 July 2012		14,000,000
– 15 August 2012		4,605,263
– 18 September 2012		5,147,059
– 26 October 2012		5,000,000
– 3 December 2012		117,500,004
– 25 March 2013		300,875,000
– 25 November 2013	35,000,000	
– 19 February 2014	1,155,133	
– 18 March 2014	5,000,000	
– 24 April 2014	187,358,750	
– 16 May 2014	1,082,704	
– 26 May 2014	1,111,111	
At reporting date	1,720,450,293	1,489,742,595

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 19: ISSUED CAPITAL (cont'd)

- On 25th November 2013 the Company issued 35,000,000 shares under the Carnegie Wave Energy Management Incentive Equity Plan, following shareholder approval obtained on 1 November 2013. The shares were funded by a limited recourse loan. The share issue has not been recognized as issued capital and has been treated as a share option issue in accordance with accounting standards.
- On 19 February 2014, 1,155,133 shares were issued to holders of Carnegie convertible notes. The shares were issued in lieu of a 6% cash quarterly coupon under the terms of the convertible note announced on 18 November 2013. The shares had an effective issue price of \$0.052 per share.
- On 18 March 2014, 5,000,000 shares were issued to the Clean Energy Finance Corporation under the terms of the debt facility announced on 19 March 2014. The shares had an effective issue price of \$0.054 per share.
- On 24 April 2014, 400,000 shares were issued to a consultant. The securities were in lieu of a cash payment under the terms of an agreement with a corporate consultant performing corporate consulting work for the company. The shares had an effective issue price of \$0.050 per share.
- On 24 April 2014, the Company raised \$1,559,438 by issuing 31,188,750 ordinary shares in a private placement to sophisticated investors at an issue price of \$0.05 per share.
- On 24 April 2014, the Company raised \$7,788,500 by issuing 155,770,000 ordinary shares pursuant to a Share Purchase Plan to existing shareholders at an issue price of \$0.05 per share.
- On 16 May 2014, 1,082,704 shares were issued to holders of Carnegie convertible notes. The shares were issued in lieu of a 6% cash quarterly coupon under the terms of the convertible note announced on 18 November 2013. The shares had an effective issue price of \$0.055 per share.
- On 26 May 2014, the Company issued 1,111,111 shares to holders of Carnegie convertible notes. The shares were issued as the result of the conversion of 50 of the convertible notes, as per the terms of the convertible note announced on 18 November 2013. The shares had an effective issue price of \$4.5 cents per share.

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 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 20: RESERVES

	Consolidated Group	
	2014	2013
	\$	\$
a. Foreign Currency Translation Reserve	86,012	81
The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries and foreign currencies		
b. Option Reserve.	12,737,413	10,173,184
The option reserve records items recognised as expenses on valuation of share options and share based payments including loan funded shares		
Total	12,823,425	10,173,265

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 21: CAPITAL AND LEASING COMMITMENTS

	Consolidated Group	
	2014	2013
	\$	\$
a. Operating and Finance Lease Commitments		
Not later than 1 year	205,485	219,738
Later than 1 year but not later than 5 years	93,377	228,952
Later than 5 years	-	-
	298,862	448,690

Operating leasing commitments consist of property leases for three properties including the Company's head office. They are all non-cancellable leases with the longest lease having an expiring term of 1 year, expiring on 13 August 2015. The Consolidated Group has sub-leased some of the property.

Finance lease commitments consist of amounts for plant and equipment. This relates to one lease with an expiry on 30 April 2018.

NOTE 22: BUSINESS RISK

In the financial year ended 30 June 2014 the Group incurred an operating loss of \$4.1 million (2013: \$3.3 million). As at 30 June 2014 the Group had an accumulated deficit of \$61.4 million. These losses have resulted primarily from costs incurred in the CETO Technology development program, and from associated general and administrative costs. The Group expects to increase certain operating expenses as it continues to expand infrastructure and commercialization activities.

As the Group continues to develop its proprietary technologies, it expects to have a net decrease in cash from operating activities until it achieves positive cash flow from the planned commercialization of its products.

The Group cannot say with certainty when it will become profitable because of the significant uncertainties associated with successfully commercializing a wave energy technology. If existing resources are insufficient to satisfy the liquidity requirements, the Group may seek to sell additional equity or debt securities or obtain credit facilities. If the Group is unable to obtain required financing, it may be required to reduce the scope of its planned product development and commercialization efforts, which could adversely affect its financial position and operating results.

NOTE 23: OPERATING SEGMENTS

The Group identifies its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group operates primarily in development of the CETO technology. The financial information presented in the statement of comprehensive income and statement of financial position is the same as that presented to chief operating decision maker. Therefore the group is considered to be a single operating segment.

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker is in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 24: CASH FLOW INFORMATION

	Consolidated Group	
	2014	2013
	\$	\$
Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax	(4,176,921)	(3,303,572)
Non-cash flows in profit		
Depreciation	71,205	66,743
Net loss on disposal of investments	-	-
Net loss on disposal of assets	-	(21,577)
Net loss on foreign exchange	2,207	5,887
Loss in share of associate	-	-
Provision for impairment	-	-
Write-off of assets	-	-
Share options & loan funded shares expensed	2,082,121	489,387
Finance costs	336,009	-
Doubtful Debts	472	439
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
Government grants received	14,034,254	2,106,788
R&D tax rebate received	2,263,825	1,167,397
(Increase)/decrease in trade and term receivables	(512,639)	42,668
(Increase)/decrease in non-current assets	(201,290)	(2,294,406)
(Increase)/decrease in development asset	(3,383,216)	-
Increase/(decrease) in trade payables and accruals	211,035	(383,956)
Increase/(decrease) in provisions	161,109	95,361
Cashflow used in operations	10,888,171	(2,028,841)

NOTE 25: EVENTS AFTER THE REPORTING PERIOD

- a. On 11 August 2014 the Consolidated Group announced the receipt of the first government grant payment of \$50,000 for the CETO 6 Project under the awarded \$11 million Federal Government grant from the Australian Government's Emerging Renewables Program (ERP).
- b. On 6 August 2014 the Consolidated Group announced that it had received a gold mining royalty payment of \$298,996 for the quarter ended 30 June 2014.
- c. On 25 July 2014 the Consolidated Group announced that it will partner with the University of Adelaide on a \$1.8m project part funded by an Australian Research Council (ARC) Linkage Grant to research and develop control strategies for wave energy converters.
- d. On 4 July 2014 the Consolidated Group announced that it had issued 50,250,000 options under the employee incentive option scheme.

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 26: RELATED PARTY TRANSACTIONS

a. Transactions with Director related entities

- Company secretarial services have been provided by Mooney & Partners Pty Ltd, a company associated with Grant Mooney during the financial year. These amounts have been included in the disclosures at Note 5. These transactions were undertaken under normal commercial terms.

NOTE 27: FINANCIAL RISK MANAGEMENT

a. Financial Risk Management Policies

The Board of Directors has responsibility for, amongst other issues, monitoring and managing financial risk exposures of the Consolidated Group. The Board monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counter party credit risk, currency risk, financing risk and interest rate risk.

Interest rate risk

The Consolidated Group'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. The effective weighted average interest rates in classes of financial assets and liabilities is as follows:

Consolidated Group	Weighted Average Effective Interest Rate %	Floating Interest Rate \$	Fixed Interest Rate Maturing		Non-interest Bearing		Total \$
			Within year \$	1 to 5 years \$	\$	\$	
30 June 2014:							
Financial assets:							
Cash and cash equivalents	2.78	6,228,032	7,060,000	-	889,479	14,177,511	
Receivables	3.39	-	676,039	-	516,480	1,192,519	
Other financial assets	-	-	-	-	12,414	12,414	
		6,228,032	7,736,039	-	1,418,373	15,382,444	
Financial liabilities:							
Accounts payable		-	-	-	4,346,736	4,346,736	
		-	-	-	4,346,736	4,346,736	
30 June 2013:							
Financial assets:							
Cash and cash equivalents	2.56	11,799,852	50,000	-	44,046	11,893,898	
Receivables	4.08	-	316,039	-	242,227	558,266	
Other financial assets	-	-	-	-	12,414	12,414	
		11,799,852	366,039	-	298,687	12,464,578	
Financial liabilities:							
Accounts payable	-	-	-	-	1,355,678	1,355,678	
		-	-	-	1,355,678	1,355,678	

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 27: FINANCIAL RISK MANAGEMENT (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 Statement of Financial Position and notes to the Statement of Financial Position.

The Consolidated Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Consolidated Group. Details with respect to credit risk of trade and other receivables are provided in note 9. The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings.

c. Net fair value

The net fair value and carrying amounts of financial assets and financial liabilities are disclosed in the Statement of Financial Position and in the notes to the Statement of Financial Position.

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.

Financial Instruments Measured at Fair Value

The financial instruments recognised at fair value in the Statement of Financial Position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Consolidated Group

	Level 1	Level 2	Level 3	Total
2014	\$	\$	\$	\$
Financial assets:				
Available-for-sale financial assets:				
– listed investments	-	-	-	-
– unlisted investments	-	-	12,414	12,414
	-	-	12,414	12,414
2013				
Financial assets:				
Available-for-sale financial assets:				
– listed investments	-	-	-	-
– unlisted investments	-	-	12,414	12,414
	-	-	12,414	12,414

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 27: FINANCIAL RISK MANAGEMENT (cont'd)

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 2014, 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:

	Consolidated Group	
	2014	2013
	\$	\$
Change in profit		
– Increase in interest rate by 1%	104,929	128,856
– Decrease in interest rate by 1%	(104,929)	(128,856)
Change in Equity		
– Increase in interest rate by 1%	104,929	128,856
– Decrease in interest rate by 1%	(104,929)	(128,856)

e. Liquidity Risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- » preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- » using derivatives that are only traded in highly liquid markets
- » monitoring undrawn credit facilities
- » obtaining funding from a variety of sources
- » maintaining a reputable credit profile
- » managing credit risk related to financial assets
- » investing only in surplus cash with major financial institutions
- » comparing the maturity profile of financial liabilities with the realisation profile of financial assets

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

	Consolidated Group	
Contractual Cash flows	2014	2013
	\$	\$
Less than 30 days	4,318,376	1,355,678
More than 1 year	28,360	36,777
	4,346,736	1,392,455

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 28: SHARE BASED PAYMENTS

a. Types of share based payment plans

Employee share option plan

Share options are granted to executives and staff at the discretion of the Board of Directors. Share options are granted to Director's after approval by shareholders. The plan is designed to align participants' interests with those of shareholders by increasing value of the Company's shares. Under the plan, the exercise price of the options is set by the Board of Directors at the time of issue.

Management Incentive Equity Plan

Following shareholder approval, shares are issued at market value to the Managing Director and are funded by a limited recourse loan. The share issue is not recognized as issued capital and is treated as a share option issue in accordance with accounting standards. The plan is designed to align participants' interests with those of shareholders by increasing value of the Company's shares.

Consultant share options

Share options are granted to consultants at the discretion of the Board of Directors for services provided to the Consolidated Group. The exercise price of the options is set by the Board of Directors at the time of issue.

Consultant & financier shares

Shares are granted to consultants and financiers at the discretion of the Board of Directors for services provided to the Consolidated Group.

Employee Share Option Plan

The following employee share option plan payments were made during the financial year ended 30 June 2014:

- » On 21 August 2013, 2,350,000 employee options were issued via the employee incentive option scheme to employees with half to vest on 21 August 2014 and the balance to vest on 24 August 2015. The options are not issued based on performance criteria, but are issued to increase goal congruence between executives and shareholders. The options have an exercise price of \$0.05.
- » On 21 August 2013, 3,500,000 employee options were issued via the employee incentive option scheme to employees with half to vest on 21 August 2014 and the balance to vest on 24 August 2015. The options are not issued based on performance criteria, but are issued to increase goal congruence between executives and shareholders. The options have an exercise price of \$0.072.
- » On 25 November 2013, 40,000,000 options were issued to Directors pursuant to shareholder approval on 1 November 2013. All options vested immediately. The options are not issued based on performance criteria, but are issued to increase goal congruence between Directors and shareholders. The options have an exercise price of \$0.065.

Management Incentive Equity Plan

The following management incentive equity plan payments were made during the financial year ended 30 June 2014:

- » On 25th November 2013 the Company issued 35,000,000 shares under the Carnegie Wave Energy Management Incentive Equity Plan, following shareholder approval obtained on 1 November 2013. The shares were funded by a limited recourse loan. The shares are not issued based on performance criteria, but are issued to increase goal congruence between the Managing Director and shareholders. The shares were issued at a cost of \$0.045 per share.

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 28: SHARE BASED PAYMENTS (cont'd)

Consultant & financier shares

The following consultant & financier shares were issued during the financial year ended 30 June 2014:

- » On 19 February 2014, 1,155,133 consultant & financier shares were issued to holders of Carnegie convertible notes. The shares were issued in lieu of a 6% cash quarterly coupon under the terms of the convertible note announced on 18 November 2013. The shares had an affective issue price of \$0.052 per share.
- » On 18 March 2014, 5,000,000 consultant & financier shares were issued to the Clean Energy Finance Corporation under the terms of the debt facility announced on 19 March 2014. The shares had an effective issue price of \$0.054 per share.
- » On 24 April 2014, 400,000 consultant & financier shares were issued to a consultant. The securities were in lieu of a cash payment under the terms of an agreement with a corporate consultant performing corporate consulting work for the Company. The shares had an affective issue price of \$0.050 per share.
- » On 16 May 2014, 1,082,704 consultant & financier shares were issued to holders of Carnegie convertible notes. The shares were issued in lieu of a 6% cash quarterly coupon under the terms of the convertible note announced on 18 November 2013. The shares had an affective issue price of \$0.055 per share.

i. Total options outstanding and exercisable are as follows:

	Consolidated Group	
	Number of options	Weighted Average Exercise Price
		\$
Outstanding options at 1 July 2013	105,750,000	0.1028
Granted	45,850,000	0.0648
Expired	(36,250,000)	0.1917
Outstanding at 30 June 2014	115,350,000	0.0597
Exercisable at 30 June 2014	89,500,000	0.0617

No options were exercised during the year ended 30 June 2014.

The options outstanding at 30 June 2014 had a weighted average exercise price of \$0.0597 and a weighted average remaining contractual life of 2.27 years. Exercise prices range from \$0.03 to \$0.14 in respect to options outstanding at 30 June 2014.

The price of the share options issued during the year was calculated by using Black Scholes option pricing model applying the following inputs:

	Employee Options	Director Options	Loan Funded Shares
Weighted averaged exercise price \$	Nil	0.065	0.045
Weighted averaged life of option	3 years	5 years	5 years
Underlying share price \$	0.05	0.045	0.045
Expected share prices volatility	55%	64%	64%
Risk free rate	2.5%	2.5%	2.5%

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 29: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	2014	2013
	\$	\$
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	15,014,390	12,407,725
Non-current assets	87,999,114	76,672,415
TOTAL ASSETS	103,013,504	89,080,140
LIABILITIES		
Current liabilities	12,088,533	2,592,669
Non-current liabilities	3,762,530	7,734,709
TOTAL LIABILITIES	15,851,063	10,327,378
EQUITY		
Issued capital	142,656,965	132,968,498
Reserves	12,822,449	10,173,182
Accumulated losses	(68,316,973)	(64,388,918)
TOTAL EQUITY	87,162,441	78,752,762
STATEMENT OF COMPREHENSIVE INCOME		
Total profit	(3,928,054)	(3,283,597)
Total comprehensive income	(3,928,054)	(3,283,597)

Guarantees

The Company has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

Contractual commitments

At 30 June 2014, the Company had not entered into any contractual commitments for the acquisition of property, plant and equipment (2013: Nil).

NOTE 30: EQUITY LINE FACILITY AGREEMENT

In April 2012, the Company entered into an agreement with the Australian Special Opportunity Fund, LP to provide up to \$16,250,000 of investment capital over 36 months ("the Agreement").

Key terms of the facility agreement are detailed below:

Issue of Tranche Shares

- » On the execution of the agreement, Australian Special Opportunity Fund, LP shall make a prepayment to the Company for the purchase of shares in a Tranche amount equal to \$150,000; and
- » Subject to certain conditions on each date 30 days after the date of the immediately preceding "Closing" (previously made prepayment), Australian Special Opportunity Fund, LP shall make a prepayment to the Company for the purchase of shares in a Tranche amount (of greater than \$175,000 but not exceeding \$450,000).

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 30: EQUITY LINE FACILITY AGREEMENT (cont'd)

The number of Tranche share to be issued will be determined as follows:

- a. 130% of the average of the daily Volume Weighted Average Price (VWAP) per Share for the twenty (20) consecutive trading days immediately prior to the relevant Tranche share issuance date (Purchase Price A); or
- b. 92.5% of the average of the five (5) consecutive daily VWAPs per share for the twenty (20) trading days prior to the relevant Tranche share issuance date.

Australian Special Opportunity Fund, LP may not elect Purchase Price A for more than one (1) Tranche share issuance during the term of the agreement.

At no time will a monthly tranche of shares be allowed to exceed 0.4% of the Company's market capitalisation without the Company's approval.

Issue of Convertible Note

On the execution of the Agreement, Australian Special Opportunity Fund, LP advanced Carnegie, \$350,000 in consideration for the issuance of an uncertificated convertible security for a term of 24 months at a zero % interest rate. The number of shares to be issued on conversion of the convertible security (during the term of the agreement) would be determined by dividing the conversion amount (which should be no less than \$50,000) by 92.5% of the average of five (5) consecutive daily VWAPs per share as chosen by Australian Special Opportunity Fund, LP in its sole discretion, during the twenty (20) consecutive trading days immediately prior to the relevant conversion notice date.

Payment of Commencement fee and issue of options

In accordance with the terms of the Agreement, Carnegie:

- » paid a commencement fee by issue of 3,985,108 ordinary shares in the Company; and
- » Issued 9,000,000 options exercisable at \$0.060 to Australian Special Opportunity Fund, LP.

Issue of Collateral share

The Agreement is secured by 6,000,000 shares which were issued at the commencement of the Agreement. The Collateral Shares:

- » shall constitute security for the obligations owed to Australian Special Opportunity Fund, LP by the Company under the Agreement, including any obligations arising on conversion of Tranche shares issuance, or to pay any monetary amount under the Agreement;
- » may be sold, assigned, mortgaged or otherwise dealt with by Australian Special Opportunity Fund, LP to satisfy any undischarged obligation referred to in the Agreement.

Other key terms of the agreement are detailed below:

- » The terms of the Agreement expressly allow the Company to carry out additional private placements of equity, rights issues and shareholder purchase plans as may be optimal to their capital management plan.
- » The Company has the right and flexibility to terminate the Agreement at no cost at any time.
- » The Company has the option to pause share subscriptions by Australian Special Opportunity Fund, LP for up to three months in any twelve month period during the term of the Agreement following the six month anniversary of the execution date.

Notes to The Financial Statements

For Year Ended 30 June 2014

NOTE 31: COMPANY DETAILS

The registered office of the Company is:

Carnegie Wave Energy Limited

Suite 1, 124 Stirling Highway
North Fremantle WA 6159

The principal place of business is:

Carnegie Wave Energy Limited

Suite 1, 124 Stirling Highway
North Fremantle WA 6159

Directors' Declaration

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 39 to 73, are in accordance with the Corporations Act 2001 and:
 - a. comply with Accounting Standards and the Corporations Regulations 2001;
 - b. give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the Company and Consolidated Group;
2. The financial statements comply with International Financial Reporting Standards as set out in Note 1;
3. The remuneration disclosures that are contained in the Remuneration Report in the Directors Report comply with the Corporations Act 2001 and the Corporations Regulations 2001; and
4. 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;
5. 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.



DR MICHAEL EDWARD OTTAVIANO

Managing Director



GRANT JONATHAN MOONEY

Director

Dated this 28th day of August 2014

Independent Auditor's Report

To The Members Of Carnegie Wave Energy Ltd And Its Controlled Entities

Report on the Financial Report

We have audited the accompanying financial report of Carnegie Wave Energy Ltd., which comprises the consolidated statement of financial position for the year ended 30 June 2014, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for year ended 30 June 2014, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgement, 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 of the financial report that gives a true and fair view 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*.

Opinion

In our opinion:

- a. the financial report of Carnegie Wave Energy Ltd. is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii. (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 35 to 37 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Carnegie Wave Energy Ltd. for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.


CROWE HORWATH PERTH



SEAN MCGURK

Partner

Signed at Perth, 28 August 2014

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 30 August 2014.

Spread of Holdings	Number of holders of ordinary shares
1 - 1,000	200
1,001 - 5,000	699
5,001 - 10,000	888
10,001 - 100,000	3,722
100,001 - and over	2,552

Number of Holders	8,061
Number of shareholders holding less than a marketable parcel	1,809

SUBSTANTIAL SHAREHOLDERS

Shareholder Name	Number of Shares
Log Creek PL	115,365,359
Renewable Energy Holdings Plc	70,089,579

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 1,721,700,836 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 names of the joint Company Secretaries are Grant Jonathan Mooney and Aidan John Flynn.

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.

Mr Flynn, is the company's Chief Financial Officer and has over 15 years of experience in accounting and finance and the energy industry.

Mr Flynn is a CPA and holds a Bachelor of Science and a Bachelor of Commerce as well as postgraduate qualifications in energy studies.

Additional Information

REGISTERED OFFICE

The registered office is at	Unit 1, 124 Stirling Highway, North Fremantle, WA 6159
The telephone number is	(08) 9486 4466
The facsimile number is	(08) 9486 4266

TWENTY LARGEST HOLDERS OF EACH CLASS OF QUOTED EQUITY SECURITIES

Ordinary Fully Paid Shares

Shareholder Name	Number of Shares	Percentage of Capital
LOG CREEK PL	106,819,904	6.20%
RENEWABLE ENERGY HLDGS PL*	70,089,579	4.07%
OTTAVIANO MICHAEL	35,000,000	2.03%
REH INTELLECTUAL PROP LTD*	31,240,613	1.81%
NATIONAL NOM LTD	25,385,705	1.47%
WOLF CAP PL	16,235,338	0.94%
CATHBEN PL	16,140,937	0.94%
JP MORGAN NOM AUST LTD	13,470,824	0.78%
RICHCAB PL	12,467,838	0.72%
BOND STREET CUSTS LTD	12,076,619	0.70%
BERMUDA FARMS PL	10,780,000	0.63%
RHODES DAMIEN TERENCE M	10,000,000	0.58%
CITICORP NOM PL	9,804,012	0.57%
LOG CREEK PL	8,545,455	0.50%
MORAWITZ CARL A + G J	8,000,000	0.46%
MASTERS LYNSAY + JANET	7,742,541	0.45%
TRACKLAW PL	7,437,808	0.43%
FRASER MATTHEW PETER	7,040,440	0.41%
RB & MA PARSONS SUPER PL	6,096,128	0.35%
BASKERVILLE SUPER PL	6,000,000	0.35%
TOTAL	420,373,741	24.42%

*Shares are escrowed until such time as an in specie distribution to the shareholders of REH PLC is completed or the Escrow is lifted at the discretion of Carnegie.

Additional Information

HOLDERS OF SECURITIES IN AN UNLISTED CLASS

Options

Optionholder Name	No. Options	Exercise Price	Vesting Date	Exercise Date
Grant Mooney	15,000,000	6.5 cents	25 November 2013	24 November 2018
Mr Michael Fitzpatrick	10,000,000	3.0 cents	3 December 2012	27 November 2014
Mr Michael Fitzpatrick	5,000,000	6.5 cents	25 November 2013	24 November 2018
Mr Kieran O'Brien	10,000,000	6.5 cents	25 November 2013	24 November 2018
Mr Jeffrey Harding	5,000,000	6.5 cents	25 November 2013	24 November 2018
Mr John Leggate	5,000,000	6.5 cents	25 November 2013	24 November 2018
Australian Special Opportunity Fund LP	9,000,000	6.0 cents	1 May 2012	30 April 2015
AZURE Capital	5,000,000	6.3 cents	3 December 2012	27 November 2015

In addition to the options detailed above there are 96,100,000 unlisted options on issue under the Company's Employee Share Option Plan.

Company Directory

Directors

Grant J. Mooney (Chairman)

B.Bus CA

Dr Michael E Ottaviano

(Managing Director & CEO)

B.Eng, MSc., DBA

Michael Fitzpatrick

(Non-Executive Director)

B.Eng (Hons), B.A (Hons)

Jeffrey Harding (Non-Executive Director)

BE (Civil), BA (Economics), MSIA (Purdue)

Kieran O'Brien (Executive Director)

BEng, MBA, MEngSc

John S. Leggate (Non-Executive Director)

CBE, FREng

Company Secretaries

Grant J. Mooney

B.Bus CA (Chairman)

Aidan Flynn

B.Comm. BSc, CPA, Post Graduate Dip. RE

(CFO)

Registered Office

Unit 1, 124 Stirling Highway

North Fremantle 6159

Western Australia

Telephone : +61 (8) 9486 4466

Facsimile : +61 (8) 9486 4266

Email : enquiries@carnegiewave.com

Website : www.carnegiewave.com

Auditors

Crowe Horwath

256 St Georges Terrace, Perth 6000

Western Australia

Solicitors

Allens

Level 37 QV 1

250 St George's Terrace

Perth, Western Australia

Share Registry

Security Transfer Registrars Pty Ltd

770 Canning Highway, Applecross 6153

Western Australia

Telephone : +61 (8) 9315 2333

Facsimile : +61 (8) 9315 2233

Stock Exchange

The Company's securities are quoted on the official list of the Australian Stock Exchange Limited

The home exchange being Perth

2 The Esplanade, Perth 6000

Western Australia

ASX code: CWE

Paper and printing credentials.

ecoStar is an environmentally responsible paper made Carbon Neutral. The greenhouse gas emissions of the manufacturing process including transportation of the finished product to BJ Ball Papers Warehouses has been measured by the Edinburgh Centre for Carbon Neutral Company and the fibre source has been independently certified by the Forest Stewardship Council (FSC). ecoStar is manufactured from 100% Post Consumer Recycled paper in a Process Chlorine Free environment under the ISO 14001 environmental management system.

Carbon Neutral.

Pangolin Associates has assessed the Carbon Emissions associated with the production of the Carnegie Wave Energy Annual Report for 2014. From these findings, verified emission reductions units (aka Carbon Credits) have been purchased and surrendered to offset all emissions generated by the report's production.



2014

Registered Office

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