



**CARNEGIE CLEAN ENERGY LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 009 237 736**

PROSPECTUS

For a non-renounceable pro rata entitlement offer of four (4) New Shares for every one (1) Share held by Eligible Shareholders on the Record Date at an issue price of \$0.001 per New Share to raise a minimum of \$5,500,000 (before costs) and a maximum of approximately \$11,525,810 (before costs).

The Entitlement Offer is currently expected to open at 5.00pm (WST) on 9 August 2019 and close at 5.00pm (WST) on 4 September 2019. Valid applications must be received before that time. Please read the instructions in this Prospectus and on the accompanying Entitlement and Acceptance Form regarding the acceptance of the Entitlement Offer.

This Prospectus also contains an offer of:

- (a) the Lender Securities to the Lenders (Lender Offer);
- (b) the Funding Securities to the Proponents (Funding Offer); and
- (c) the 2021 Notes to the Lenders (2021 Notes Offer),

(together, the Additional Offers).

This Prospectus is also being issued in order to facilitate secondary trading of the underlying securities to be issued upon:

- (a) the exercise of the Lender Options and the Funding Options; and
- (b) the conversion of the 2021 Notes.

THE DEED ADMINISTRATORS, WHO HAVE GRANTED THE DIRECTORS THEIR APPROVAL UNDER THE DOCA TO EXERCISE THE DIRECTORS' POWERS REFLECTED HEREIN, HAVE NOT INDEPENDENTLY VERIFIED ANY OF THE INFORMATION CONTAINED IN THIS PROSPECTUS.

THE DEED ADMINISTRATORS AND THEIR EMPLOYEES AND AGENTS DO NOT MAKE ANY REPRESENTATION OR WARRANTY (EXPRESS OR IMPLIED) AS TO THE ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS PROSPECTUS.

THIS IS AN IMPORTANT DOCUMENT REQUIRING YOUR IMMEDIATE ATTENTION AND SHOULD BE READ IN ITS ENTIRETY. IF YOU ARE IN DOUBT ABOUT WHAT TO DO, YOU SHOULD CONSULT YOUR STOCKBROKER, ACCOUNTANT, SOLICITOR, OR OTHER PROFESSIONAL ADVISOR.

AN INVESTMENT IN THE SECURITIES OFFERED BY THIS PROSPECTUS SHOULD BE CONSIDERED HIGHLY SPECULATIVE IN NATURE.

LETTER TO SHAREHOLDERS

31 July 2019



Dear Shareholder

Carnegie Clean Energy Limited (**Carnegie** or the **Company**) has a renewed opportunity to create value for shareholders as marine energy continues to mature around the world. Wave energy remains one of the largest untapped sources of clean energy. As Directors, we are pleased to provide you with an opportunity to participate in Carnegie's recapitalisation and development of its wave energy technology.

Carnegie has developed a considered plan to reboot the operations of the Company and is seeking to significantly improve the CETO performance and cost by utilising a low-cost, digital development pathway that requires substantially less capital than the previous heavy engineering approach of iteratively building large physical prototypes. With the failed EMC business now removed, the Directors believe that Carnegie will be much better placed to deliver its core business objective - the development and commercialisation of the CETO technology, with a significantly lower capital requirement.

Investors are being offered an attractive price to invest in this new Carnegie, which sets out a pathway forward towards achieving the aim of commercialising our CETO technology, whilst drawing upon our vast experience from the last 12 years of designing, developing, building, deploying and operating our CETO technology.

Key management personnel of the Company have prepared a two year development pathway focussing on creating and verifying an improved CETO unit design, based on a virtual prototype, for the next generation of wave power units. This design is intended to be a first step of the Company's aim to become competitive with offshore wind power generation in large (or similar scale) deployments following a period of industry growth and cumulative deployments. Carnegie will ultimately seek to establish licence and/or royalty agreements with large utility scale Original Equipment Manufacturers (OEMs) that have the financial standing and technical know-how to build and roll out Carnegie's product.

A number of key technologies have emerged in recent years which make the low-cost digital development pathway more attractive than the iterative physical prototyping that has historically been the focus of Carnegie. Most significantly, advances in machine learning (a subset of artificial intelligence) will be applied, with an aim of reducing design cycle time and cost. Concurrently, the design process will utilise the increased availability and capability of advanced super-computer level simulation capabilities now present and growing in Western Australia and which Carnegie has access to and significant experience with. Carnegie will seek to validate the virtual results by tank testing and undertaking discrete small-scale physical testing of key components in order to ensure accuracy and confidence in results.

Additionally, research and development in electric vehicle and drive technology have been expanding exponentially and the subsequent rapid commercialisation of these new technologies also offers potential benefits for Carnegie. The same improved electrical subsystems used in electric vehicles for the powertrain are applicable to the electrical generator components of our wave power generation units and Carnegie will seek to incorporate these new low-cost electrical generator systems into the CETO unit design with the aim of optimising and improving the CETO technology.

The management team of Carnegie have defined targets for the digital development pathway and the Company will provide regular updates on its progress. The Company will seek to utilise collaboration alliances with CSIRO / Pawsey, University of Western Australia and Enel Green Power to assist in its goal of making Carnegie's technology a globally competitive source of renewable energy, with an aim of competing with more recently commercialised sources of renewables such as offshore wind generation.

Carnegie has now addressed the previous problems in the Company, which stemmed from the failed EMC business. The Company's difficulties in completing the Albany Wave Energy Project arose primarily from the significant cash losses incurred by that EMC business and proposed R&D tax changes. This left the Company unable to finance the Project, which was the cause of the Project not being completed rather than any failure or loss of confidence in our core wave power technology. EMC has been wound down, meaning that Carnegie will no longer be required to fund losses incurred by EMC and has no further financial exposure to that business. This will enable Carnegie to focus on its core business of wave energy research, development and commercialisation. The new and more focused Carnegie business will have a much smaller footprint, reduced head count and significantly reduced operating cost.

To provide Carnegie with funding to execute the rebooted business strategy over the next 12 months, Carnegie is undertaking a non-renounceable pro rata entitlement offer of four (4) New Shares for every one (1) Share held by Eligible Shareholders at the Record Date at an issue price of \$0.001 per New Share to raise a minimum of \$5,500,000 (before costs) and a maximum of approximately \$11,525,810 (before costs).



Should Shareholders take up their entitlements in full and the offer is fully subscribed (raising \$11,525,810), the dilution effect following completion of the Recapitalisation Proposal (defined below) will be a maximum of approximately 16.1% (based on a maximum subscription).

The recapitalisation provides for the extinguishment of pre-administration claims and the conversion of a proportion of Carnegie's debt to equity, with the remaining debt being restructured and carrying over to the recapitalised entity in the form of new convertible notes maturing in 2021. Refer to Section 2 for further details of the recapitalisation proposal (**Recapitalisation Proposal**).

The Recapitalisation Proposal has been developed with funding and support from two of Carnegie's key stakeholders, Mooney & Partners (a corporate advisory firm associated with Non-Executive Director, Mr Grant Mooney) and Asymmetric (one of Carnegie's existing Shareholders and lenders), who together have provided aggregate funding of \$500,000 to support Carnegie through the administration process.

The Recapitalisation Proposal also has the support of Carnegie's existing Directors (Mike Fitzpatrick, Terry Stinson and Grant Mooney) and management (Jonathan Fiévez), who will continue in their existing roles following completion of the Recapitalisation Proposal, lending their extensive knowledge of Carnegie's business and expertise with previous generations of CETO technology to assist Carnegie to execute the business strategy further detailed in the Prospectus. In addition, Anthony Shields will be joining the Board (as a nominee of Asymmetric) to provide financial management and strategic advice and assist with the commercialisation of Carnegie's wave energy technology.

With its new streamlined structure, Carnegie is confident that it can reduce the funding burden on Shareholders and continue with its mission of delivering Shareholder value from renewable energy technologies.

The New Shares offered under this Prospectus should be regarded as highly speculative. Refer to Section 7 for a summary of the key risks associated with an investment in the Company. We encourage you to read this Prospectus carefully and in full before applying for any New Shares. If you are in doubt as to any of the contents of this Prospectus, you should consult your stockbroker, accountant, solicitor or other professional advisor.

Yours faithfully



Terry Stinson
Non-Executive Chairman

IMPORTANT INFORMATION

General

This Prospectus is dated, and was lodged with ASIC on 31 July 2019. Neither ASIC nor ASX nor their respective officers take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

No New Securities will be issued on the basis of this Prospectus any later than 13 months after the date of this Prospectus (being the expiry date of this Prospectus).

The Company will apply to ASX within seven days of the date of this Prospectus for Official Quotation by ASX of the New Shares offered under this Prospectus.

A copy of this Prospectus is available for inspection at the Australian registered office of the Company at 21 North Mole Drive, North Fremantle WA 6159 during normal business hours. The Company will provide a copy of this Prospectus to any person on request. The Company will also provide copies of other documents on request (refer to Sections 11.1 and 11.12). Eligible Shareholders can obtain a copy of this Prospectus during the period of the Offers on the Company's website.

No person or entity is authorised to give any information or to make any representation in connection with the Offers which is not contained in this Prospectus. Any information or representation not contained in this Prospectus should not be relied on as having been made or authorised by the Company or the Directors in connection with the Offers.

Application Forms

The Application Forms accompanying this Prospectus are important. The Application for New Securities under the Offers can only be submitted on an Application Form. The Entitlement and Acceptance Form sets out an Eligible Shareholder's Entitlement. Please refer to the instructions in Section 6 regarding the acceptance of your Entitlement, applications for Shortfall Shares and the completion of Application Forms.

By returning an Application Form, you acknowledge that you have received and read this Prospectus and you have acted in accordance with the terms of the Offers detailed in this Prospectus.

Eligibility

The Entitlement and Acceptance Form sets out an Eligible Shareholder's Entitlement. Eligible Shareholders may apply for all or part of their Entitlement by completing and returning the Entitlement and Acceptance Form accompanying this Prospectus. Eligible Shareholders may also apply for Shortfall Shares under the Shortfall Offer (in addition to accepting all of their Entitlement) by completing the relevant sections on the Entitlement and Acceptance Form and returning the Entitlement and Acceptance Form accompanying this Prospectus.

Overseas Shareholders

This Prospectus does not, and is not intended to, constitute an offer of New Securities in any place or jurisdiction in which, or to any person to whom, it would be unlawful to make such an offer or to issue this Prospectus.

The Offers are not being extended, and New Securities will not be issued, to Shareholders with a registered address which is outside Australia and New Zealand. It is not practicable for the Company to comply with the securities laws of overseas jurisdictions (other than those mentioned above) having regard to the number of overseas Shareholders, the number and value of New Securities these Shareholders would be offered and the cost of complying with regulatory requirements in each relevant jurisdiction.

No action has been taken to permit the offer of New Securities to existing Shareholders in any jurisdiction other than Australia and New Zealand. The distribution of this Prospectus in jurisdictions outside Australia and New Zealand is restricted by law and persons outside of Australia and New Zealand should observe such restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities laws.

Important information for New Zealand Investors

The Offers to Shareholders with a registered address in New Zealand is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act and the Corporations Regulations 2001 (Cth). In New Zealand, this is subpart 6 of Part 9 of the Financial Markets Conduct Act 2013 and Part 9 of the Financial Markets Conduct Regulations 2014.

The Offers and the content of this Prospectus are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act sets out how the Offers must be made.

There are differences in how securities are regulated under Australian law.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities.

Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to the Offers. If you need to make a complaint about the Offers, please contact the Financial Markets Authority, New Zealand (<http://www.fma.govt.nz>). The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian financial products is not the same as for New Zealand securities.

If you are uncertain about the terms and conditions of the Offers, you should seek the advice of an appropriately qualified financial adviser.

Notice to nominees and custodians

Shareholders resident in Australia and New Zealand holding Shares on behalf of persons who are resident in other jurisdictions are responsible for ensuring that taking up any New Securities does not breach regulations in the relevant jurisdiction. Return of a duly completed Application Form will be taken by the Company to constitute a representation that there has been no breach of those regulations.

ASX Waivers

Waiver of ASX Listing Rule 7.11.3

Listing Rule 7.11.3 provides that the ratio of securities offered by a listed entity under a non-renounceable pro rata issue must not be greater than one security for each security held. As the Entitlement Offer involves a ratio of four for one (4:1) Shares, the Company has sought and received a conditional waiver from the ASX in respect to Listing Rule 7.11.3 to undertake the Entitlement Offer.



The waiver of Listing Rule 7.11.3 is conditional upon:

- (a) Shareholders approving the Entitlement Offer; and
- (b) the notice of meeting containing a voting exclusion statement that excludes the votes of any substantial shareholders, any proposed underwriter or sub-underwriter of the Entitlement Offer, any brokers or managers of the Entitlement Offer, and any of their respective associates; and
- (c) the Company releasing details of the waiver at the time that full details of the Entitlement Offer is announced to Shareholders.

Waiver of ASX Listing Rule 10.1

Listing Rule 10.1 provides that a company must obtain shareholder approval to acquire a substantial asset from, or dispose of a substantial asset to, a related party of the company (amongst others). Broadly, an asset will be a substantial asset if its value, or the value of the consideration for it is, 5% or more of the equity interests of the company as detailed in the latest accounts given to ASX under the Listing Rules. Under the Listing Rules, the grant of a security over an asset constitutes disposing of the asset and, given that HFM will be a 2021 Noteholder pursuant to which the Security will be granted, the Company has sought and received a conditional waiver in respect to Listing Rule 10.1. Refer to Section 2 for further details.

The waiver of Listing Rule 10.1 is conditional upon (amongst other matters):

- (a) the Security including a term that if an event of default occurs and HFM exercises its rights under the Security, neither HFM or any of its associates can acquire any legal or beneficial interest in an asset of the Company or its subsidiaries in full or part satisfaction of the Company's obligations under the Security, or otherwise deal with the assets of the Company or its subsidiaries, without the Company first having complied with any applicable listing rules, including listing rule 10.1, other than as required by law or through a receiver, or receiver or manager (or analogous person) appointed by HFM exercising their power of sale under the Security and selling the assets to an unrelated third party on arm's length commercial terms and conditions and distributing the cash proceeds to HFM or its associates in accordance with their legal entitlements;
- (b) the Company including a summary of the material terms of the Security in each annual report of the Company during the term of the Security;
- (c) any variations to the terms of the Security which is:
 - (i) not a minor change; or
 - (ii) inconsistent with the terms of the waiver, being subject to shareholder approval; and
- (d) the requirement that the Company and HFM must seek to discharge the Security when the funds advanced to the Company are repaid, or if it is not discharged, seek shareholder approval for the continuation of the Security for any further period.

The Company has also applied for a waiver of Listing Rule 10.1 to the extent necessary to permit the grant of a security to Log Creek Pty Ltd ATF 88 Green Trust without Shareholder approval. The Company will provide Shareholders with an update by way of ASX announcement in respect to the outcome of the waiver.

Waiver of Listing Rules 7.3.2, 10.13.3 and 10.13.5

The Company has applied for a waiver of Listing Rules 7.3.2 and 10.13.3 in respect of the Interest Shares to be issued under Listing Rules 7.1 and 10.11 to allow the Company to issue those Shares on the relevant interest payment dates but in any event, no later than 31 March 2021. The Company has also applied for a waiver in respect to Listing Rule 10.13.5 for the Interest Shares to be issued pursuant to Listing Rule 10.11. The Company will provide Shareholders with an update by way of ASX announcement in respect to the outcome of the waiver.

Waiver of Listing Rule 7.15

ASX has granted the Company waiver of Listing Rule 7.15 to permit the Company to undertake the Entitlement Offer with a record date that is prior to the date of the shareholders meeting to approve the Entitlement Offer subject to (amongst others):

- (a) Shareholders approving the Entitlement Offer; and
- (b) the Company's securities are not reinstated to official quotation at any time prior to the shareholders meeting nor before ASX gives notice that it is satisfied that the financial condition and level of operations of the company is adequate to warrant the quotation of Shares.

Highly speculative investment

An investment in New Securities should be considered highly speculative. Refer to Section 7 for details of the key risks applicable to an investment in the Company.

Persons wishing to apply for New Securities should read this Prospectus in its entirety in order to make an informed assessment of the assets and liabilities, financial position and performance, profits and losses and prospects of the Company and the rights and liabilities attaching to New Securities.

This Prospectus does not take into account the investment objectives, financial or taxation or particular needs of any Applicant. Before making any investment in the Company, each Applicant should consider whether such an investment is appropriate to his/her particular needs, their individual risk profile for highly speculative investments, investment objectives and individual financial circumstances. If persons considering applying for New Securities have any questions, they should consult their stockbroker, solicitor, accountant or other professional adviser.

There is no guarantee that New Securities will make a return on the capital invested, that dividends will be paid on New Securities or that there will be an increase in the value of the New Securities in the future.

Forward-looking statements

This Prospectus contains forward-looking statements which may be identified by words such as 'believes', 'estimates', 'expects', 'intends', 'may', 'will', 'would', 'could', or 'should' and other similar words that involve risks and uncertainties. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the Directors and management of the Company. Key risks associated with an investment in the Company are detailed in Section 7. These and other factors could cause actual results to differ materially from those expressed in any forward-looking statements.

The Company has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

The Company cannot and does not give assurances that the results, performance or achievements expressed or implied in the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

Website

No document or information included on the Company's website is incorporated by reference into this Prospectus.

Diagrams

Any diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

Currency

All financial amounts contained in this Prospectus are expressed as Australian dollars unless otherwise stated.

Rounding

Any discrepancies between totals and sums and components in tables contained in this Prospectus are due to rounding.

Time

All references to time in this Prospectus are references to WST, unless otherwise stated.

Glossary

Defined terms and abbreviations used in this Prospectus are detailed in the glossary of terms in Section 13.

Deed Administrators

The Deed Administrators of Carnegie Clean Energy Limited (Subject to Deed of Company Arrangement), who have granted the Directors their approval under the DOCA to exercise the Directors' powers reflected herein, have not independently verified any of the information contained in this Prospectus. The Deed Administrators and their employees and agents do not make any representation or warranty (express or implied) as to the accuracy, reasonableness or completeness of the information contained in this Prospectus.

CORPORATE DIRECTORY

Directors

| | |
|---------------------|--------------------------------------|
| Terry Stinson | Non-Executive Chairman |
| Michael Fitzpatrick | Non-Executive Director |
| Grant Mooney | Non-Executive Director |
| Anthony Shields | Non-Executive Director (Proposed) |

Chief Executive Officer

Jonathan Fiévez

Company Secretary

Grant Mooney

Registered Office

21 North Mole Drive
North Fremantle, WA 6159
Telephone: (08) 6168 8400
Website: www.carnegiece.com

ASX Code: CCE

*This party is named for informational purposes only and was not involved in the preparation of this Prospectus.

Share Registry*

Security Transfer Australia Pty Ltd
770 Canning Highway,
Applecross 6153 WA
Telephone (domestic): + 61 (8) 9628 2200
Telephone (international) +61 (8) 9315 2233

Auditors*

HLB Mann Judd
Level 4, 130 Stirling Street
Perth WA 6000

Lawyers

DLA Piper Australia
Level 31, Central Park
152-158 St Georges Terrace
Perth WA 6000



INDICATIVE TIMETABLE

| Event | Date |
|--|-------------------|
| Lodgement of Notice of Meeting | 30 July 2019 |
| Lodgement of Prospectus | 31 July 2019 |
| Company sends letters to Eligible Shareholders and Ineligible Shareholders | 1 August 2019 |
| “Ex” Date | 5 August 2019 |
| Record Date (at 5:00pm WST) | 6 August 2019 |
| Entitlement Offer Opening Date | 9 August 2019 |
| General Meeting | 30 August 2019 |
| Last day to extend the Offer Closing Date | 30 August 2019 |
| Entitlement Offer Closing Date (at 5:00pm WST) | 4 September 2019 |
| Securities quoted on a deferred settlement basis | 5 September 2019 |
| Notification of Shortfall | 6 September 2019 |
| Issue of New Securities | 9 September 2019 |
| Creditors Trust Established DOCA Effectuated | |
| Company ceases to be subject to DOCA | 9 September 2019 |
| Dispatch of holding statements for Shares | 10 September 2019 |
| Satisfaction of ASX conditions to reinstatement | 11 September 2019 |
| Expected date for Shares to recommence trading on ASX | 12 September 2019 |

- The above timetable is indicative only and subject to change. Subject to the Listing Rules, the Directors (in consultation with the Deed Administrators) reserve the right to vary these dates, including the Closing Dates, without prior notice. Any extension of the Closing Date will have a consequential effect on the anticipated date for issue of the New Shares. The Directors also reserve the right not to proceed with the whole or part of the Entitlement Offer at any time prior to allotment. In that event, the relevant Application Monies will be returned without interest.
- The New Securities issued pursuant to the Offers will be issued prior to the Shares being reinstated to trading on ASX. Whilst the New Shares pursuant to the Offers will be admitted to quotation following close of the Offers, there is no guarantee that the Shares will be reinstated to trading on ASX.

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| Topic | Summary | Further information |
|---|--|----------------------|
| Overview of the Company | | |
| Who issued this Prospectus? | This Prospectus is issued by Carnegie Clean Energy Limited (Subject to Deed Of Company Arrangement) ACN 009 237 736. | |
| What is the current status of the Company? | <p>Carnegie is an Australian public company that has been listed on ASX since 26 October 1993 (ASX: CCE).</p> <p>Fully paid ordinary shares in the Company (Shares) have been suspended from trading on ASX since 1 March 2019.</p> <p>The Directors appointed Richard Tucker and John Bumbak of KordaMentha Restructuring as voluntary administrators on 14 March 2019 (Administrators).</p> <p>At the second meeting of creditors held on 17 April 2019, creditors resolved in favour of the deed of company arrangement proposed by Mooney & Partners (a Shareholder associated with Non-Executive Director, Mr Grant Mooney) and Asymmetric (a company associated with proposed Director, Mr Anthony Shields and an existing lender of the Company), and on 13 May 2019 the Company and the Administrators executed the deed of company arrangement (and associated documents) (DOCA) with the Administrators being appointed joint and several deed administrators (Deed Administrators).</p> <p>The Company will remain subject to DOCA, and its Shares will remain suspended from trading until completion of the DOCA and the satisfaction of certain conditions imposed by ASX for its reinstatement.</p> | Section 2.3 |
| What is the Recapitalisation Proposal? | <p>Mooney & Partners and Asymmetric (Proponents):</p> <ul style="list-style-type: none"> presented the Administrators with a proposal to restructure and recapitalise the Company through a deed of company arrangement; and provided interim funding of \$500,000 to the Administrators to pursue the restructure and recapitalisation (Funding Loan). <p>The proposal of the Proponents to restructure and recapitalise the Company and its assets, provides for (amongst other matters) the following:</p> <ul style="list-style-type: none"> a capital raising by the Company at an issue price of \$0.001 per Share to raise a minimum of \$5,500,000 (before costs) (Minimum Subscription) and a maximum of approximately \$11,525,810 (before costs); the establishment of a creditors' trust, under which the Company's creditors will become beneficiaries of the trust in exchange for extinguishing their claims against the Company (other than certain creditors detailed below), allowing the Company to exit administration (Creditors' Trust); the sale of all material assets of Carnegie, other than its interests in the CETO Technology and the Garden Island Microgrid (GIMG or Garden Island Microgrid), the proceeds of which will also be paid into the Creditors' Trust; the payment of up to \$1.4 million of the proceeds from the Entitlement Offer to the Deed Administrators (to comprise part of the Creditors' Trust) (Creditors' Trust Payment); and the conversion of a proportion of certain creditors' debt into equity with the remaining debt being carried over in the form of the 2021 Notes, (being the Recapitalisation Proposal detailed in Section 2.3). <p>If the Minimum Subscription is not achieved, the Offers under this Prospectus will not proceed and all Application Monies will be refunded to Applicants (without interest).</p> | Sections 2.3 and 4.4 |
| What will be the debt position of the Company following the Recapitalisation Proposal? | Following completion of the Recapitalisation Proposal (which includes effectuation of the DOCA and completion of the Offers) and assuming the Minimum Subscription is achieved, the Company will have cash on hand of approximately \$3,850,000 and a liability position of \$2,825,000, being the total face value of the 2021 Notes (noting that the 2021 Notes has been broken down into various constituent elements in the independent limited assurance report in accordance with AASB standards) and all existing debts of the Company will be extinguished. | Section 8 |



| Topic | Summary | Further information |
|--|---|----------------------------|
| What are the Company's financial prospects and position? | <p>Following completion of the Recapitalisation Proposal, the Company will have a strengthened balance sheet with minimal liabilities other than the 2021 Notes, allowing it to proceed with its business plan and strategy.</p> <p>Section 8 contains Company's Pro Forma Consolidated Statement of Financial Information as at 31 December 2018 (unaudited), incorporating the effect of the Recapitalisation Proposal, Entitlement Offer and effectuation of the DOCA.</p> | Sections 3.3 and 8 |
| What are the 2021 Notes? | <p>The 2021 Notes are new Convertible Notes maturing on 31 March 2021 with a coupon of 8% per annum payable via the issue of Shares.</p> <p>50% of the CCE Notes and the HFM Bridge Loan (being existing debts of the Company), together totalling approximately \$2,825,000, will convert into 2021 Notes as part of the Recapitalisation Proposal.</p> <p>Refer to Sections 9.2 and 10.4 for the full terms and conditions of the 2021 Notes.</p> | Sections 2.3, 9.2 and 10.4 |
| How will the Company's other debts be dealt with under the Recapitalisation Proposal? | <p>50% of the CCE Notes and the HFM Bridge Loan, together totalling approximately \$2,825,000 will convert into New Shares at \$0.00125 per Share, with each Share being issued with one free attaching Option (exercisable at \$0.0015 expiring three years from the date of issue) and being subject to voluntary escrow for six months from the date of issue.</p> <p>The Funding Loan will convert into New Shares at an issue price of \$0.001 per Share, with each Share being issued with one free attaching Option (exercisable at \$0.00125 and expiring five years from the date of issue).</p> <p>The \$1.6 million worth of ARENA Notes owed by the Company will not carry forward following the completion of the Recapitalisation Proposal.</p> <p>All other debts of the Company will be extinguished following the completion of the Recapitalisation Proposal.</p> | Sections 2.3, 9 and 10.4 |
| Who are the Directors, Proposed Director, management and technical team? | <p>The existing Directors, being:</p> <ul style="list-style-type: none"> • Mr Terry Stinson - Non-Executive Chairman; • Mr Michael Fitzpatrick - Non-Executive Director; and • Mr Grant Mooney - Non-Executive Director, <p>will continue in their current roles as Directors on completion of the Recapitalisation Proposal, providing the Company with continuity of management familiar with Carnegie's business and operations.</p> <p>In addition, Mr Anthony Shields representing Asymmetric will be appointed as a Non-Executive Director on completion of the Recapitalisation Proposal.</p> <p>Mr Jonathan Fiévez, Chief Executive Officer, will continue to lead the Company's day to day operations.</p> <p>Refer to Section 5.6 for details of the above personnel and their experience and qualifications.</p> | Sections 2.5 and 5.6 |
| General Meeting | | |
| What is the General Meeting? | <p>In connection with the Recapitalisation Proposal, the Company is required to seek Shareholder approval for the following matters:</p> <ul style="list-style-type: none"> • the issue of Shares under the Entitlement Offer; • the issue of the Lender Securities; • the issue of the Funding Securities; and • the issue of the 2021 Notes. <p>A general meeting to approve the requisite Shareholder approvals will be held on 30 August 2019.</p> | Section 2.7 |
| What happens if Shareholders do not approve the Resolutions at the General Meeting? | <p>If the requisite Shareholder approvals are not obtained, the Company will be prevented by the Listing Rules from issuing the New Securities and will not proceed with the Recapitalisation Proposal.</p> <p>This may lead to the Company being placed into liquidation. Under such circumstances, all Application Monies received pursuant to the Entitlement Offer (which will be held on trust) will be returned to the Applicants in full.</p> | Section 2.7 |

| Topic | Summary | Further Information |
|--|--|----------------------|
| Summary of the Offers | | |
| What is the Entitlement Offer? | An offer of New Shares at an issue price of \$0.001 per New Share to Eligible Shareholders on the basis of four (4) New Shares for every one (1) Share held on the Record Date. | Section 4.1 |
| What is the Lender Offer? | An offer of 2,260,000,000 New Shares together with 2,260,000,000 free attaching New Options to the CCE Noteholders and HFM (and/or their nominees). The Lender Offer under this Prospectus is made only to the Noteholders and HFM (and/or their nominees). | Section 4.2(a) |
| What is the Funding Offer? | An offer of 500,000,000 New Shares together with 500,000,000 free attaching New Options to the Proponents (and/or their nominees). The Funding Offer under this Prospectus is made only to the Proponents (and/or their nominees). | Section 4.2(b) |
| What is the 2021 Notes Offer? | An offer of 113 (one hundred and thirteen) 2021 Notes each with a face value of \$25,000 to the CCE Noteholders and HFM (and/or their nominees). The 2021 Notes Offer under this Prospectus is made only to the CCE Noteholders and HFM (and/or their nominees). | Section 4.2(c) |
| What is the purpose of the Entitlement Offer? | <p>The purpose of the Entitlement Offer is to raise a minimum of \$5,500,000 (before costs) and a maximum of approximately \$11,525,810 (before costs).</p> <p>The funds raised from the Entitlement Offer will be utilised for the development of the CETO Technology, corporate overheads, operation of the Garden Island Microgrid, payment to the Creditor's Trust, costs associated with the Offers and working capital purposes.</p> <p>The use of the funds raised from the Entitlement Offer will vary according to the amount raised. Refer to Section 5.1 for further details.</p> | Sections 4.3 and 5.1 |
| What are the purposes of the Additional Offers? | The purpose of the Additional Offers is to remove the need for an additional disclosure document to be issued upon the sale of any New Shares (or any Shares issued upon the conversion of Options and 2021 Notes) that are issued under the Additional Offers. | Section 4.3 |
| Is the Entitlement Offer underwritten? | The Entitlement Offer is not underwritten. | Section 4.5 |

| Topic | Summary | Further information |
|--|---|-----------------------|
| <p>What are key risks associated with an investment in the Company?</p> | <p>Some of the key risks of investing in the Company are as follows:</p> <ul style="list-style-type: none"> <p>Reinstatement to ASX Quotation</p> <p>As at the date of this Prospectus the Company is suspended from ASX's Official List. There is a risk that the Company may not be able to meet the requirements of the ASX for re-quotation of its Shares on ASX. Should this occur the Shares will not be able to be traded on the ASX until such time as those requirements can be met, if at all.</p> <p>Commercialisation of technology</p> <p>The research and development of wave energy technology such as the CETO Technology and the commercialisation of the results of that work can be considered a high-risk undertaking. There is no guarantee that the research and development will produce a commercially effective, successful or competitive technology. The failure to achieve the objectives of the research and development process may prevent the Company commercialising the CETO Technology. The failure of the research and development process to generate a commercially effective, successful or competitive technology may have a materially adverse effect on the Company's performance and prospects</p> <p>Key personnel</p> <p>The Company's businesses are reliant on a number of key personnel and the loss of the services of one or more of these individuals could adversely affect the Company. In addition, The Company's plans for expansion will require it to recruit and train new employees. Although the Company expects to be able to attract and retain skilled and experienced personnel, there can be no assurance that it will be able to do so. The Company intends to mitigate these risks by entering into service contracts with any new employees and, where appropriate, may utilise existing and establish new employee incentive plans to encourage employees' loyalty to the Company.</p> <p>Future capital requirements</p> <p>On completion of the Recapitalisation Proposal, the Directors believe that the Company will have sufficient funds to satisfy short and medium term working capital requirements. However, the development of the CETO Technology may require additional financing in the future in order for research, development and commercialisation of the technology to progress at a competitive rate.</p> <p>No assurances can be given that the Company will be able to raise this additional funding, which may be a combination of debt and/or equity financing. To meet such funding requirements, the Company may be required to undertake additional equity financing, which would be potentially dilutive to Shareholders depending on their participation in any equity raising. Debt financing, if available, may involve certain restrictions on operating activities or other financings. An inability to obtain the required additional finance as and when required would delay progress on the development of the CETO Technology, which would have a material adverse effect on the Company's business, financial performance and prospects.</p> <p>The list of risks is not exhaustive and further details of these risks and other risks associated with an investment in the Company are detailed in Section 7.</p> <p>Please carefully consider the risks and other information contained in this Prospectus in conjunction with any specific matters that have or may be referred to the Company's ASX announcements before making any decision regarding an investment in the Company.</p> | Section 7 |
| <p>What is the effect of the Entitlement Offer on the Company?</p> | <p>The maximum number of New Shares that will be issued under the Entitlement Offer and Shortfall Offer is 11,525,809,800 New Shares.</p> | Section 5.1 |
| <p>Is the Entitlement Offer subject to a minimum subscription?</p> | <p>Yes, the Entitlement Offer is subject to the Minimum Subscription of \$5,500,000 (before costs).</p> <p>If the Minimum Subscription is not achieved, the Entitlement Offer will not proceed and all Application Monies will be refunded to Applicants (without interest).</p> | Section 4.4 |
| <p>Who can participate in the Entitlement Offer?</p> | <p>Eligible Shareholders, being Shareholders on the Record Date with a registered address in Australia or New Zealand on the Share Register, may participate in the Entitlement Offer.</p> | Sections 4.18 and 6.1 |

| Topic | Summary | Further information |
|---|--|---------------------|
| How do I accept my Entitlement? | All Eligible Shareholders are entitled to participate in the Entitlement Offer. If you wish to accept all or part of your Entitlement, you must complete your Entitlement and Acceptance Form that accompanies this Prospectus and send it to the Share Registry together with payment by cheque, bank draft or money order or follow the instructions to pay via BPAY*. | Section 6.1 |
| Can I sell or transfer my Entitlement under the Entitlement Offer? | No, as the Entitlement Offer is non-renounceable, you cannot sell or transfer any of your Entitlement. There will be no trading of Entitlements on ASX. | Section 4.9 |
| How will Shortfall be allocated? | Eligible Shareholders may apply for Shortfall Shares by completing the relevant section of their Entitlement and Acceptance Form. Other investors may apply for Shortfall Shares by completing a Shortfall Application Form. Shortfall Shares will be allocated in accordance with the Shortfall allocation policy detailed in Section 4.7. | Section 4.15 |
| Enquiries concerning Prospectus | Enquiries relating to this Prospectus should be directed to Mr Shane Murphy of FTI Consulting on +61 8 9321 8533. | Section 4.22 |

2 Company and Recapitalisation Overview



2.1 Overview of the Company

Carnegie is an Australian incorporated ASX-listed 100% owner and developer of the CETO wave energy technology intellectual property (**CETO Technology**) which converts ocean wave energy into zero-emission electricity.

From 2008 to 2016, Carnegie's sole focus was on developing the CETO Technology, pursuant to which the Company expended approximately \$100 million advancing the CETO Technology and developing site applications both in Australia and internationally. This period culminated in the deployment of the 5th generation of the CETO Technology (being the CETO 5 Units) at Garden Island in Western Australia.

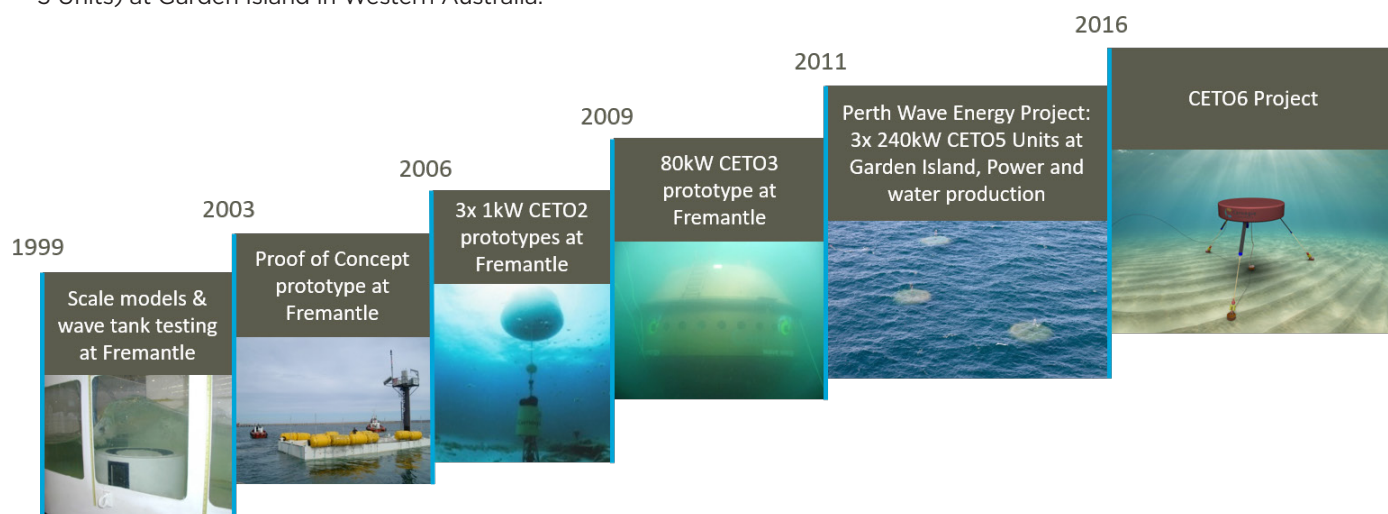


Figure 1 - Evolution Timeline of the CETO Technology.

In 2016, Carnegie acquired the “Energy Made Clean” business (**EMC Business**) with the intention that it, as a separate but complimentary business unit, would deliver profits into the future that could be applied towards ongoing development of the CETO Technology.

Since 2016, Carnegie delivered major solar projects such as the Northam Solar Farm, Delamere RAAF Solar-Battery Project, CSIRO Square Kilometre Array power system and the Garden Island Microgrid.





Figure 2 - Garden Island Microgrid Project - A 2MW solar PV installation and 2MW/0.5MWh battery energy storage system.

Carnegie was unable to achieve the desired level of financial performance from the EMC Business, which consumed considerable amounts of the Company's capital, and was unsuccessful in its efforts to complete a divestment of the EMC Business to offset losses from that business unit, eventually leading to the appointment of the Administrators in March 2019. The capital consumed by the EMC Business, also left Carnegie unable to pursue the Albany Wave Energy Project (**AWEP**).

Following the appointment of the Administrators, the Company, together with several supportive stakeholders, has developed a proposal to recapitalise the Company by way of the DOCA and Recapitalisation Proposal (details of which are detailed below).

2.2 Background to the Administration

In April 2016, Carnegie commenced a diversification of its business with an acquisition of a 35% interest in Energy Made Clean Pty Ltd (**EMC Co**), the holder of the assets and undertakings comprising the EMC Business. In December 2016, Carnegie increased its investment to 100% ownership of EMC Co, with the intention that the EMC Business would deliver profits into the future that could be applied towards ongoing development of the CETO Technology, thereby limiting the need to seek on-going capital from shareholders and the broader investment market.

Carnegie was unable to achieve the desired level of financial performance from the EMC Business due to a combination of factors, including EMC Co's array of challenging projects, onerous joint venture arrangements and legacy contracts. The financial performance of the EMC Business consumed capital that could have been utilised in pursuing the development of the CETO Technology. In 2018, Carnegie progressed towards a divestment of the EMC Business to MPower Limited (formerly TAG Pacific Limited). However, on 30 November 2018, the agreement to divest the EMC Business was terminated following the counterparty not satisfying key conditions to the transaction.

Carnegie continued in its efforts to dispose of the EMC Business. Prior to the appointment of the Administrators, Carnegie had been conducting a sale process for the EMC Business and held discussions with potential acquirers but had not received any firm proposals. The failure of the EMC Business to deliver profits and the incidence of losses on a number of key projects forced Carnegie to consider seeking further capital from shareholders and the investment market in order to fund its overall business operations and corporate overheads.

In March 2019 Carnegie engaged with a number of stock brokers with a view to undertaking an equity capital raising with the intention of raising sufficient working capital to continue operating whilst restructuring or completing the sale process in respect to the EMC Business. However, these engagements did not progress to a level of confidence sufficient to resolve Carnegie's issues and on 14 March 2019, the Company appointed Richard Tucker and John Bumbak of KordaMentha Restructuring (**Administrators**) as voluntary administrators of the Company and certain subsidiaries, including EMC Co.

2.3 The Recapitalisation Proposal and DOCA

Mooney & Partners (a Shareholder associated with Non-Executive Director, Mr Grant Mooney) and Asymmetric Credit Partners Pty Ltd (**Asymmetric**) (a secured creditor of the Company holding CCE Notes associated with Proposed Director, Mr Anthony Shields) (together, the **Proponents**):

- (a) presented the Administrators with a proposal to restructure and recapitalise the Company through a deed of company arrangement; and
- (b) provided interim funding of \$500,000 to the Administrators to pursue the restructure and recapitalisation (**Funding Loan**).

At the second meeting of creditors held on 17 April 2019, creditors resolved in favour of the deed of company arrangement proposed by Mooney & Partners and Asymmetric, and on 13 May 2019 the Company and the Administrators executed the deed of company arrangement (and associated documents) (**DOCA**) with the Administrators being appointed joint and several deed administrators (**Deed Administrators**).

The proposal of Mooney & Partners and Asymmetric to restructure and recapitalise the Company and its assets, provides for the following:

- (a) a capital raising by the Company at an issue price of \$0.001 per Share to raise a minimum of \$5,500,000 (before costs) and a maximum of approximately \$11,525,810 (before costs);
- (b) the establishment of a creditors' trust, under which the Company's creditors will become beneficiaries of the trust in exchange for extinguishing their claims against the Company (other than certain creditors mentioned below), allowing the Company to exit administration (**Creditors' Trust**);
- (c) the sale of all assets of Carnegie, other than the CETO Technology and the Garden Island Microgrid, the proceeds of which will also be paid into the Creditors' Trust;
- (d) the payment of up to \$1.4 million of the proceeds from the Entitlement Offer to the Deed Administrators (to comprise part of the Creditors' Trust) (**Creditors' Trust Payment**);

- (e) 50% of the 450 existing Convertible Notes on issue, each having a face value of \$10,000 (**CCE Notes**) and the bridging loan facility from HFM Investments Pty Ltd (a company associated with Non-Executive Director Mike Fitzpatrick) (**HFM Bridge Loan**), totalling approximately \$2,825,000, converting into Shares at \$0.00125 per Share, with each Share being issued with one free attaching Option exercisable at \$0.0015 per Option, expiring three years from the date of issue (with both the New Shares and Options being subject to voluntary escrow for six months from the date of issue);
- (f) the remaining 50% of the CCE Notes and the HFM Bridge Loan, totalling approximately \$2,825,000, converting into a new class of Convertible Notes maturing 31 March 2021 with a coupon of 8% per annum payable in Shares at an issue price of the greater of the 90 day VWAP per Share as at the relevant Interest Payment Date or \$0.001 (**Interest Shares**), with such Convertible Notes being able to convert and Interest Shares issued 12 months following issue, following which the notes will be convertible at \$0.00125 per Share and having one free attaching option exercisable at \$0.0015 per share and expiring three years from issue (**2021 Notes**) (refer to Section 9.2 for further details in respect to the CCE Notes) ;
- (g) the entry into a general security agreement in favour of the holders of the 2021 Notes to secure the amounts owing under the 2021 Notes against all of the Company's property from time to time;
- (h) the Funding Loan from the Proponents converting into New Shares at an issue price of \$0.001 per Share, with each Share being issued with one free attaching Option exercisable at \$0.00125 per Option and expiring five years from the date of issue; and
- (i) the 16 existing convertible notes on issue to the Australian Renewable Energy Agency (**ARENA**) maturing on 24 January 2024 with a face value of \$100,000, a conversion price of \$0.053 will lapse (**ARENA Notes**),

(together the **Recapitalisation Proposal**).

Completion under the DOCA is subject to (amongst other matters) the following conditions precedent being satisfied:

- (a) the Entitlement Offer and all conditions to the reinstatement of the Company to trading on the ASX (other than effectuation of the DOCA) being satisfied (refer to section 2.6); and
- (b) the Company completing the Minimum Subscription.

For the purposes of the capital raising and to satisfy the requirements of the DOCA, the Company is undertaking a non-renounceable pro rata entitlement issue of four (4) New Shares for every one (1) Share held by Eligible Shareholders on the Record Date at an issue price of \$0.001 per New Share to raise a minimum of \$5,500,000 (before costs) and up to \$11,525,810 (before costs) (being the Entitlement Offer under this Prospectus). Refer to Section 4 for further details in respect to the Entitlement Offer.

Following completion of the steps detailed above and effectuation of the DOCA, the Company will also be required to satisfy certain ASX imposed conditions before the Shares will be reinstated to trading on ASX. Refer to Section 2.6 for further details.

The Company will enter into into General Security Deeds (GSA) with the 2021 Noteholders (which includes Asymmetric, an entity associated with the Proposed Director) and HFM and Log Creek, being entities, associated with Mr Mike Fitzpatrick, a Director. The GSA will be granted over all of the assets and undertakings of the Company, save that security over the GIMG asset will only apply following the grant of consent by the Department of Defence but at all times apply to any proceeds from the GIMG asset. Refer to Section 9.3 for further details.

2.4 Purpose of the Recapitalisation Proposal

The purpose of the Recapitalisation Proposal (including the Entitlement Offer) is to:

- (a) restructure the Company's capital and asset base (including the liquidation of the loss making EMC Business);
- (b) raise funds for the working capital requirements of the Company;
- (c) terminate the DOCA and retire the Deed Administrators;
- (d) discharge the claims of creditors;
- (e) facilitate the reinstatement of the Shares to trading on ASX.

Refer to Section 5.1 for further details of the use of funds.

2.5 Board and Management

The Company proposes to retain its existing Board and Chief Executive Officer following completion of the Recapitalisation Proposal, providing the Company with continuity of management who are familiar with Carnegie's existing business and operations and also proposes to appoint Mr Anthony Shields as a Non-Executive Director (representing Asymmetric).

The Directors, Proposed Director, management and technical team of the Company have a complementary balance of skills and experience that will facilitate Carnegie successfully implementing the business strategy detailed in this Prospectus.

Refer to Section 5.6 for details of the existing Directors, Proposed Director and management and qualifications.

2.6 ASX Conditions for Reinstatement

ASX confirmed that, subject to the satisfaction of the conditions for reinstatement detailed below, the Shares will be reinstated to trading of the Official List. As at the date of this Prospectus, the outstanding ASX conditions to reinstatement are as follows:

- (a) Completion of an amended DOCA approved by creditors of the Company on terms not materially different to the Recapitalisation Proposal and as advised to ASX in various communications and correspondence with ASX and an announcement to be released on the ASX Platform disclosing this or a signed statement from the administrators that notwithstanding the changes to the terms of the DOCA from the terms voted on by creditors on 17 April 2019, the creditors are bound by the amended terms pursuant to the Recapitalisation Proposal.
- (b) Completion of the DOCA (as pursuant to the terms of the Recapitalisation Proposal), or the amended DOCA (as



- applicable)
- (c) Confirmation that the Creditors' Trust has been established.
 - (d) Shareholders approving all the resolutions required to effect the Recapitalisation Proposal to be considered at the Meeting.
 - (e) The Company releasing a full form prospectus pursuant to section 710 of the Corporations Act in relation to the Entitlement Offer.
 - (f) Completion of the Entitlement Offer and confirmation that the Company has reached Minimum Subscription.
 - (g) Confirmation in a form acceptable to ASX that the Company has received cleared funds for the complete amount of the issue price of every security allotted and issued to every successful applicant for securities under the Entitlement Offer.
 - (h) Confirmation of the conversion of 50% of the 450 existing CCE Notes and the HFM Bridge Loan, into Shares at \$0.00125, with each Share issued having 1 free attaching Option exercisable at \$0.0015 per Share and expiring 3 years from issue and with the Shares and Options being subject to voluntary escrow for a period of 6 months following the date of issue.
 - (i) Confirmation that all the conditions to the DOCA (as per the terms of the Proposal) or the amended DOCA (whichever is applicable) have been satisfied. If any of the conditions have been waived, such waiver must be on terms acceptable to ASX.
 - (j) Confirmation of completion of the following:
 - (i) the issue of the 2021 Notes to the relevant creditors (being the holders of the CCE Notes and HFM);
 - (ii) execution of the GSA;
 - (iii) conversion and extinguishment of the Funding Loan;
 - (iv) payment of up to \$1.4 million from the proceeds of the Capital Raising into the Creditor's Trust.
 - (k) An update on the current status of the ARENA Notes and on the discussions between the Company and ARENA regarding whether the ARENA Notes will lapse or whether they will carry forward.
 - (l) Confirmation that "Energy Made Clean" (operated via Energy Made Clean Pty Ltd, EMC Engineering Australia Pty Ltd and EMC Co Pty Ltd) is in liquidation and will not form part of the Company's assets at the time of reinstatement.
 - (m) Confirmation that the Company has disposed of its interest in Northam Solar Farm A Pty Ltd and the proceeds from the sale and any the proceeds of any other assets being disposed of pursuant to the DOCA has been transferred to the Creditor's Trust.
 - (n) Confirmation to the satisfaction of ASX that the Company retains its interest and has full and unfettered access to the following assets:
 - (i) CETO (including but not limited to CETO IP Pty Ltd (noting this subsidiary holds the rights to the CETO Technology) and CETO Wave Energy UK Ltd and CETO Wave Energy Chile Ltd (noting these subsidiaries operate and assist in commercialising the CETO Technology);
 - (ii) the licence to operate and intellectual property in respect to the Albany Wave Energy Project;
 - (iii) Garden Island Microgrid project;
 - (iv) Various subsidiaries:
 - (A) Carnegie Recreational Watercraft Pty Ltd;
 - (B) New Millennium Engineering Pty Ltd;
 - (C) CMA Nominees Pty Ltd.
 - (o) An update on the current status of the financing facilities with CBA (entered into in March 2018) for aggregate funding of \$1.6 million comprising:
 - (i) Post-construction debt financing for GIMG of \$2.1 million;
 - (ii) Revolving debt facility of \$4 million;

(CBA Facilities).
 - (p) Confirmation of the treatment and status of the CBA Facilities upon effectuation of the DOCA (as per the Proposal) or the amended DOCA (as applicable).
 - (q) Confirmation that the Company's subsidiary companies and assets, which will carry forward following effectuation of the DOCA (as per the Proposal) or the amended DOCA (as applicable), are in good standing.
 - (r) Confirmation that the Company's secured creditors have released and discharged any security granted to them by the Company and there are no outstanding security interests over the Company's assets and that the Company's secured creditors have no further interest in the Company's assets (other than the GSA to be entered into pursuant to the 2021 Notes).
 - (s) Confirmation that all the conditions to the DOCA (as per the terms of the Proposal) or the amended DOCA (whichever is applicable) have been satisfied. If any of the conditions have been waived, such waiver must be on terms acceptable to ASX.
 - (t) The Company demonstrating compliance with Listing Rules 12.1 to 12.4 inclusive, to the satisfaction of the ASX, as detailed below.
 - (i) The Company satisfies the requirements of Listing Rule 12.1.
 - (ii) The Company's financial condition satisfies the requirements of Listing Rule 12.2, including:
 - (A) completion of the Entitlement Offer and that, after payment of the costs of the Entitlement Offer (if any) and payments to the Deed Administrators and any other parties or entities to satisfy obligations

under the DOCA (and any amendments or variations thereto), the Company can demonstrate to ASX that it will have net tangible assets for at least \$4 million pursuant and satisfies the requirements of Listing Rule 1.3.2(a);

- (B) making a 'working capital statement' similar to that required by Listing Rule 1.3.3(a) to the effect that following completion of the Entitlement Offer, the Company will have sufficient working capital at the time of reinstatement to carry out its activities; and
 - (C) satisfying the 'working capital test' pursuant to Listing Rule 1.3.2(b).
- (u) The level of Shareholder spread will satisfy the requirements of Listing Rule 12.4, with there being at least 300 non-affiliated holders each holding at least \$500 worth of fully paid ordinary shares (such calculation to be based on the issue price of the Entitlement Offer).
 - (v) Lodgement of all outstanding Appendices 3B with ASX for issues of new securities.
 - (w) Reinstatement of the Company's CHESSE sub-register (if applicable).
 - (x) The Company having a free float (as that term is defined in Chapter 19 of the Listing Rules) of not less than 20% at the time of its reinstatement to the official list.
 - (y) Provision of copies of restriction agreements entered into by the Company and the relevant shareholder, together with undertakings provided by a bank, recognised trustee or the provider of registry services, in relation to the restricted securities of the Company, if required.
 - (z) Lodgement of any outstanding reports for the period since the Company's securities were suspended and any other outstanding documents required by Listing Rule 17.5.
 - (aa) Lodgement of Director's Interest Notices, being either Appendix 3Xs, 3Ys, or 3Zs, as required.
 - (bb) Confirmation that there are no legal, regulatory or contractual impediments to the Company undertaking the activities the subject of the commitments disclosed in the Prospectus.
 - (cc) Payment of any ASX fees, including listing fees, applicable and outstanding.
 - (dd) Confirmation the securities to be issued following the Meeting have been issued, and despatch of each of the following has occurred.
 - (i) In relation to all holdings on the CHESSE subregister, a notice from the Company under ASX Settlement Operating Rule 8.9.1.
 - (ii) In relation to all other holdings, issuer sponsored holding statements.
 - (iii) Any refund money.
 - (ee) Provision of the following documents, in a form suitable for release to the market.
 - (i) A statement setting out the names of the 20 largest holders of each class of securities to be quoted, including the number and percentage of each class of securities held by those holders.
 - (ii) A distribution schedule of the numbers of holders in each class of security to be quoted, setting out the number of holders in the following categories.
 - (A) 1 - 1,000
 - (B) 1,001 - 5,000
 - (C) 5,001 - 10,000
 - (D) 10,001 - 100,000
 - (E) 100,001 and over
 - (iii) Confirmation of completion of an amended DOCA approved by creditors of the Entity on terms not materially different to the Proposal or a signed statement from the administrators that notwithstanding the changes to the terms of the DOCA from the terms voted on by creditors on 17 April 2019, the creditors are bound by the amended terms pursuant to the Recapitalisation Proposal.
 - (iv) A statement outlining the Company's capital structure following the Meeting on a post-issue basis.
 - (v) The Company's pro forma balance sheet based on actual funds raised.
 - (vi) The Company's updated statement of commitments based on actual funds raised.
 - (vii) A consolidated activities report setting out the proposed business strategy for the Company (including an update on the status of the Company's assets and the current activities with respect thereto).
 - (viii) Full terms and conditions of all options on issue (if any).
 - (ix) Full terms and conditions of any employee incentive schemes (if any).
 - (x) A statement disclosing the recipients of the broker shares (including the number of shares issued to each broker).
 - (xi) A statement confirming the conversion of 50% of the 450 existing CCE Notes and the HFM Bridge Loan, into Shares at \$0.00125, with each Share issued having 1 free attaching Option exercisable at \$0.0015 per Share and expiring 3 years from issue and with the Shares and Options being subject to voluntary escrow for a period of 6 months following the date of issue.
 - (xii) A statement confirming completion of the following:
 - (A) the issue of the 2021 Notes to relevant creditors;
 - (B) execution of the GSA;
 - (C) conversion and extinguishment of the Funding Loan;
 - (D) payment of up to \$1.4 million from the proceeds of the Capital Raising into the Creditor's Trust.
 - (xiii) An update on the current status of the ARENA Notes (ie. whether they will lapse or whether they will carry forward).
 - (xiv) A statement confirming "Energy Made Clean" (operated via Energy Made Clean Pty Ltd, EMC Engineering



Australia Pty Ltd and EMC Co Pty Ltd) is in liquidation and will not form part of the Company's assets at the time of reinstatement.

- (xv) A statement confirming the Company has disposed of its 11.33% interest (held through the Company's subsidiary) in Northam Solar Farm A Pty Ltd and the proceeds from the sale and any the proceeds of any other assets being disposed of pursuant to the DOCA has been transferred to the Creditor's Trust.
- (xvi) A statement confirming that the Company retains its interest and has full and unfettered access to the following assets:
 - (A) CETO (including but not limited to CETO IP Pty Ltd (noting this subsidiary hold the rights to the CETO intellectual property) and CETO Wave Energy UK Ltd and CETO Wave Energy Chile Ltd (noting these subsidiaries operate and assist in commercialising the CETO Technology);
 - (B) Albany Wave Energy Project;
 - (C) Garden Island Microgrid project;
 - (D) Various subsidiaries:
 - (1) Carnegie Recreational Watercraft Pty Ltd;
 - (2) New Millennium Engineering Pty Ltd;
 - (3) CMA Nominees Pty Ltd.
- (xvii) A statement providing an update on the current status of the financing facilities with CBA (entered into in March 2018) for aggregate funding of \$1.6 million under the CBA Facilities.
- (xviii) A statement confirming the treatment and status of the CBA Facilities upon effectuation of the DOCA (as per the Proposal) or the amended DOCA (as applicable).
- (xix) A statement confirming that the Company's subsidiary companies and assets which will carry forward following effectuation of the DOCA (as per the Proposal) or the amended DOCA (as applicable) are in good standing.
- (xx) A statement confirming that the Company's secured creditors have released and discharged any security granted to them by the Company and there are no outstanding security interests over the Company's assets and that the Company's secured creditors have no further interest in the Company's assets (other than the GSA to be entered into pursuant to the 2021 Notes).
- (xxi) A statement similar to that required by Listing Rule 1.3.3(a) and 1.3.3 (b) to the effect that following completion of the Capital Raising the Company will have sufficient working capital at the time of reinstatement to carry out its activities.
- (xxii) A statement disclosing the extent to which the Company will follow, as at the date its securities are reinstated, the recommendations set by the ASX Corporate Governance Council. If the Company does not intend to follow all of the recommendations on its reinstatement, the Company must identify those recommendations that will not be followed and give its reasons for not following them.
- (xxiii) A statement setting out the number of securities subject to ASX restrictions or voluntary escrow and the restriction period (or voluntary escrow period) applied to those securities.
- (xxiv) A copy of the Company's securities trading policy as required by Listing Rule 12.9.
- (xxv) An update on all litigation with respect to the Company (if any).
- (xxvi) A statement confirming that there are no legal, regulatory or contractual impediments to the Company undertaking the activities the subject of the commitments disclosed in the Prospectus.
- (xxvii) A statement confirming the Company is in compliance with the Listing Rules and in particular Listing Rule 3.1.
- (xxviii) Any further documents and confirmations ASX may determine are required to be released to the market as pre-quotation disclosure.
- (xxix) A statement confirming of the responsible person for the purposes of Listing Rule 1.1 condition 12.
- (ff) Provision of any other information required or requested by ASX including, but not limiting the generality of the foregoing, in relation to any issues that may arise (1) from ASX's review of the Prospectus; and (2) from ASX's review of the Company's financial reports.

2.7 EMC

EMC Co's creditors voted to liquidate EMC Co, in accordance with the recommendation of the Administrators (in their capacity of administrators of EMC Co) and EMC Co has since been placed into liquidation and Shareholders will no longer have any economic exposure to the EMC Business through their investment in the Company.

2.8 2021 Notes

If the Company receives subscriptions in excess of the Minimum Subscription under the Entitlement Offer, the Company intends to repay some of the 2021 Notes (which will be issued in satisfaction of the CCE Notes and HFM Bridge Loan as part of the Recapitalisation Proposal). Refer to Section 5.1 for further details.

For the 2021 Notes that are not repaid (or converted) and remain outstanding at maturity, the Company intends to repay these 2021 Notes:

- (a) by undertaking a refinancing with a third party lender;
- (b) from cash reserves from the operation of the Garden Island Microgrid (refer to Section 3.2(b) for details in respect to the conditions on operation); or

(c) via proceeds from the sale of certain of the Company's assets (including the Garden Island Microgrid). If the Company is unable to obtain alternative financing on favourable terms, operate GIMG on a cash flow positive basis or divest its assets, the Company may be required to raise further funding, whether debt or equity. The 8% coupon payments accruing under the 2021 Notes are payable via the issue of the Interest Shares. Refer to Section 10.4 for the terms and conditions of the 2021 Notes.

2.9 General Meeting

The Company has dispatched a notice of meeting to hold a general meeting of Shareholders on 30 August 2019 to approve the various issues of New Shares, New Options, the 2021 Notes and the Interest Shares in connection with the Recapitalisation Proposal for the purposes of ASX Listing Rule 7.1 and 10.11 (**General Meeting**), including:

- (a) the issue of the New Shares under the Entitlement Offer;
- (b) the issue of Lender Securities to the Lenders;
- (c) the issue of Funding Securities to the Proponents; and
- (d) the issue of the 2021 Notes to the Lenders.

Refer to Section 4.2 for further details of the Additional Offers.

If Shareholder approval is not obtained for the issue of the New Securities under the Recapitalisation Proposal, the Company will be prevented by the Listing Rules and Corporations Act from issuing the New Securities under the DOCA. This may lead to the Company being placed into liquidation. Under such circumstances, all Application Monies received pursuant to the Entitlement Offer (which will be held on trust) will be returned to the Applicants in full.

3 Business Overview and Strategy



3.1 Overview

Following completion of the Recapitalisation Proposal, Carnegie will emerge with a strengthened balance sheet. The Board considers that the Recapitalisation Proposal presents an opportunity for the Company to return to its original focus of development of the CETO Technology. Refer to Section 8 for the Company's financial information, which takes into account the effect of Recapitalisation Proposal.

The recapitalised Carnegie will adopt a less capital-intensive digital development approach that will seek to leverage on advances in machine learning (a subset of artificial intelligence) and computational power. Building on advancing and accepted computational design tools, the Company will utilise the acquired knowledge of its staff and seek to build a virtual prototype of an improved, more competitive CETO Unit. Carnegie will seek to integrate elements of machine learning, advanced electrical machines and advanced hydrodynamics into the prototype, with an aim of bringing the CETO Unit power production costs down the cost curve far more rapidly than incremental in-sea deployments. Carnegie will seek to validate the prototype by small scale testing in order to accurately demonstrate the performance, behaviour and cost of the full-scale design and thereby providing the Company with sufficient evidence to present a business case to existing collaborators and/or new partners. Refer to Section 3.3 for further detail of Carnegie's business strategy and future plans.

Enel Green Power (EGP) is a world leader in renewable energy and entered into a collaboration agreement with Carnegie in 2018 (Refer to Section 9.7 in respect to the current status of the arrangement). Fabio Fugazzotto, EGP Head of Marine Innovation said: *"Enel Green Power expects that wave energy will have the potential to play a significant role in the future of energy. Carnegie has a leading capability and knowledge base in this sector and their CETO technology is one of the most interesting we have found. Carnegie's plan to use advanced simulation and machine learning has the potential to improve the commercial prospects for CETO and we look forward to explore the potential of this technology"*.

Carnegie's ongoing work with CSIRO's Pawsey Supercomputer has been a large contributor to the confidence in the digital prototype approach and the prospects for machine learning in this application. Mark Stickells, Executive Director of the Pawsey Supercomputing Centre said: *"Carnegie uses Pawsey's research supercomputer to undertake billions of simulations to estimate CETO operations in different wave conditions, reducing the need for less targeted and more time-consuming tank testing and in-ocean trials"*.

3.2 Company Assets

Following completion of the Recapitalisation Proposal, the Company's main assets and undertaking will comprise the research, development and commercialisation of the CETO Technology and the commercial operation of the Garden Island Microgrid.

(a) CETO Technology

Carnegie and its wholly owned subsidiary, CETO IP Pty Ltd, hold the intellectual property and patents of the Company relating to the CETO Technology which is the result of a decade of research, development and testing. The Board considers Carnegie's achievements in the wave energy sector to be notable and the Company can benefit from this unique knowledge base in the design of future CETO Unit designs.

As at the date of this Prospectus, the existing CETO 6 Unit design has reached a preliminary design level. The overall system is comprised of a number of sub-systems which are identified in the Figure 3 below.



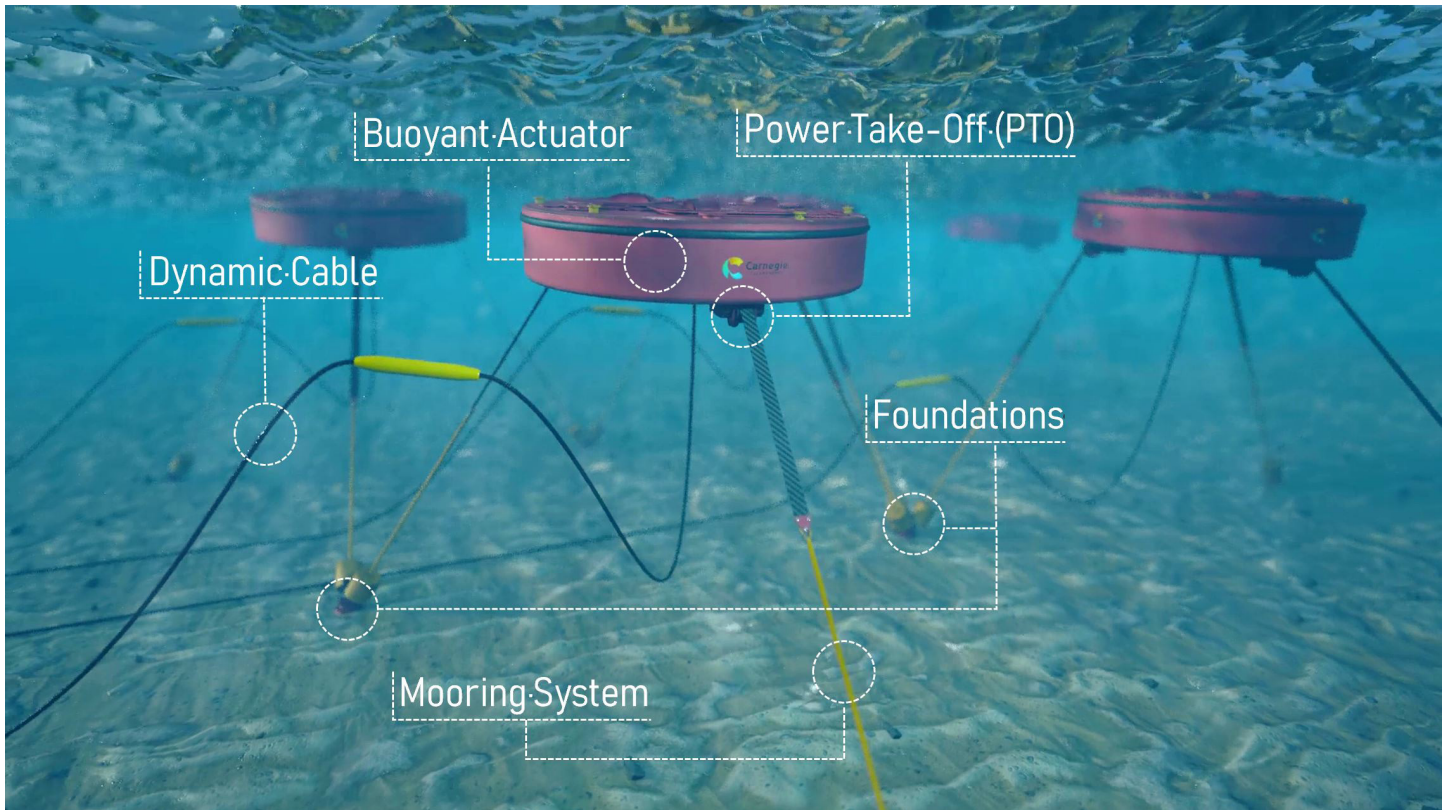


Figure 3 - Illustration of the CETO Unit.

The Buoyant Actuator (**BA**) is a large steel structure, submerged just below the surface and is driven in an orbital path by the motion of the waves. It houses the Power Take-Off (**PTO**), control system, buoyancy chambers and the connection point for the dynamic cable. The PTO converts the relative motion between the BA and the sea floor into electricity. The linear motion of the BA is first converted to rotary motion by wrapping a belt around a drum and connecting it, via the mooring system and connectors, to the foundations. Energy is extracted from the rotating drum using a hydraulic-electric hybrid generator. Refer to Figure 3 for further details.

Carnegie's 100% ownership of the CETO Technology provides flexibility to explore potential commercialisation pathways including joint ventures, Original Equipment Manufacturer (**OEM**) technology licencing and/or royalty arrangements, product sales as well as the provision of technical and engineering services. The active and continued generation of new intellectual property throughout the development of the CETO Technology is a key competency within Carnegie's technical team, with the generation and capture of new ideas widely encouraged. CETO Technology's intellectual property portfolio includes seven patent families, ranging in maturity, with 71 currently granted patents and 20 patents pending.

An asset base of onshore and offshore infrastructure is owned by Carnegie and available for internal use or external use under commercial arrangements. The Rous Head facility at Fremantle, Western Australia is the Company's head office location and also a research facility with a nursery site 300 metres from shore, complete with data and power connections. Garden Island has a much greater wave resource and was the site of prior CETO Unit deployments. The site has offshore foundations, hydraulic and electrical connections to shore and a grid connection point already in place.

The offshore and onshore infrastructure at Fremantle and Garden Island remain valuable assets for the Company's own purposes but will also be offered for use to other wave industry participants. This will serve to potentially strengthen industry partnerships and generate additional revenue from those assets.

Whilst Carnegie did not reach the point of building infrastructure at Albany (due to a shortage of capital) significant knowledge of the soil conditions, wave and meteorological conditions, permitting and approval processes, port capacity and the grid connection requirements has been acquired and retained. Carnegie also retains an exclusive licence to undertake research and deploy wave energy instrumentation in the Torbay area - Albany. Refer to Section 3.2(c) for further details.

(b) **Garden Island Microgrid (GIMG)**

Carnegie owns the 2MW solar PV installation and 2MW/0.5MWh battery energy storage system constructed by EMC and which is the subject of an arrangement with the Department of Defence (**DoD**).

The GIMG is located at Fleet Base West/HMAS Stirling and is subject to a 15-year agreement with the DoD for the supply of electricity to HMAS Stirling. The first period concludes in



Figure 4 - Garden Island containerised desalination system

May 2022 but may be extended by two further option terms of five years each. A water supply agreement is also in place to facilitate water sales from the associated desalination plant that is co-located with the solar-battery system. The GIMG received the Approval to Operate from Western Power in late June 2019 and in late July received final sign-off from DoD to commence operations of the solar-battery system. Typical annual revenue from the sale of electricity is expected to be approximately \$380,000 with annual operating expenses of approximately \$100,000.

The GIMG is subject to various operational conditions and a forecast network change external to the system itself. Additionally, the first year of operation is likely to uncover start-up issues that are typical of most equipment of this nature. As a result, additional expenditure may be required for the system to maintain operations and connection to the network. These costs are estimated to be up to \$375,000.

(c) **Albany Wave Energy Project**

Prior to the appointment of the Administrators, Carnegie had been conducting site development activities in Albany as part of the Albany Wave Energy Project, with a view to offshore installation of a CETO Unit and associated onshore infrastructure.

The AWEP formally commenced in 2017 with support from the State of Western Australia through the Department of Primary Industries and Regional Development (**DPIRD**) and the Commonwealth Government through the Australian Renewable Energy Agency (**ARENA**).

Following a series of events beginning with proposed changes to the R&D tax incentive scheme, DPIRD introduced a requirement for Carnegie to provide evidence that it was financially capable of delivering the project and had the expertise and operational capacity to carry out the AWEP. The information provided by Carnegie specifically relevant to its financial capability to fund the project did not satisfy DPIRD, leading to termination of the funding agreement with DPIRD in March 2019 and the DPIRD funding being withdrawn. Carnegie's inability to satisfy the funding requirement was primarily due to the unsatisfactory financial performance of the EMC Business, coupled with difficulties in obtaining additional capital.

As a result of the withdrawal of the DPIRD funding, the Company has no current intention to proceed with AWEP. However, the Company continues to collaborate with the Wave Energy Research Centre at Albany and intends to maintain its licence in good standing. If the Company successfully implements its business strategy and successfully develops a commercial prototype CETO Unit, the Company and/or customers and partners may reconsider the Albany site for commercial deployment (in conjunction with other possible sites) due to the favourable conditions in Albany.

Carnegie holds a licence, issued by the State of Western Australia, to occupy an area offshore from Albany to undertake research and deploy wave energy instrumentation. This licence grants exclusive occupation for the purpose of wave energy but is otherwise non-exclusive. The current term of the licence is valid until March 2020, with a further optional term of 2 additional years.

(d) **Northam Solar Farm**

Carnegie's interest in the Northam Solar Farm will not carry forward to the recapitalised entity and will be transferred to the Creditor's Trust. Any proceeds from the sale of Carnegie's interest in the Northam Solar Farm will not be received by the Company.

3.3 Business Strategy and Plans

(a) **Overview**

Following completion of the Recapitalisation Proposal, Carnegie will pursue a revised business strategy focusing on:

- (i) undertaking concentrated research and development activities to optimise the CETO Unit design, by applying machine learning (artificial intelligence), new low-cost electrical generators, optimised system configuration and modern hydrodynamic approaches;
- (ii) within the next 18 months, constructing a complete virtual prototype CETO Unit incorporating the design improvements detailed in Section 3.3(a)(i);
- (iii) over the next two years, pursuing a partnership with an OEM or other commercial partners to contribute funding and expertise to decrease the costs of producing CETO Units to a competitive level and increase market opportunities in the long term;
- (iv) in the next two to three years, identify and engage with utility scale partners to construct and/or utilise CETO Units on a commercial scale; and
- (v) ultimately generating shareholder value through royalty or license agreements in respect to the CETO Technology.

The Company will also seek to generate revenue from the GIMG asset via the production and sale of electricity generated at the GIMG to the DoD.

Further details of the business strategy for CETO and GIMG are detailed below.

(b) **CETO**

Building upon the significant intellectual property accrued to date, Carnegie will continue to pursue the development of the CETO Technology along the following streams:

- (i) improvement in yield and reduction of costs using artificial intelligence and, more specifically, machine learning techniques;
- (ii) electrification of the PTO generation system and enhancement of the associated rotary translation system, which converts the linear motion of the buoy into rotary motion suitable for an electrical generator;
- (iii) enhancement of the computational models and linking them into a complete virtual prototype whereby the full system can be near-realistically simulated under most, if not all scenarios;
- (iv) electric PTO subsystem testing and wave tank testing of the technology;



- (v) seek partnerships with industry participants, capable of improving efficiencies in key components such as the foundation and mooring systems; and
- (vi) collaboration with a development partner or technology licensee to prepare the next deployment site, probably either in Australia or in Europe, to demonstrate the new generation of the CETO Unit.

For the remainder of 2019, Carnegie will seek to further develop some innovations that recently became more tangible. These include the use of machine learning (a subset of artificial intelligence), advanced electrical generators derived from the electric vehicle sector and adaptive hydrodynamic techniques. The Company will seek to integrate these innovations into the CETO Technology with an aim to reducing project and technology costs and increasing power production - to seek to achieve the benefit of reducing the capital demands of a demonstration project and create a more competitive product. The latter part is critical to ensure the CETO Unit has the potential to follow the deployment rates of the successful offshore wind industry that has more than 22,000 MW of deployed capacity and deployed approximately 5,000 MW in 2018. Within the next 18 months, Carnegie seeks to deliver an improved CETO 6 Unit design, integrating these innovations and demonstrating performance improvement.

Within the next two years, Carnegie intends to pursue a partnership with a large OEM to contribute funding and expertise to decrease the costs of producing CETO Units to a competitive level and increase market opportunities in the long term. Carnegie aims to mitigate the capital demands on Carnegie with respect to the development and commercialisation of the CETO Technology through such partnerships.

In the medium to long term and subject to the delivery of the virtual CETO prototype, Carnegie will seek to derive value from CETO Technology by entering into license fee or royalty arrangements in respect of the CETO Technology. Carnegie will also seek out partners to construct and/or utilise CETO Units on a commercial scale.

Carnegie will also continue to seek relationships with key industry participants who have assisted in the CETO Technology development. The Company will seek to utilise collaboration alliances with CSIRO / Pawsey, University of Western Australia, Enel Green Power and the University of Edinburgh to assist in the development of the CETO Technology. Additionally, Carnegie has been consulting to various marine energy proponents and will continue to seek to develop this potential income stream.

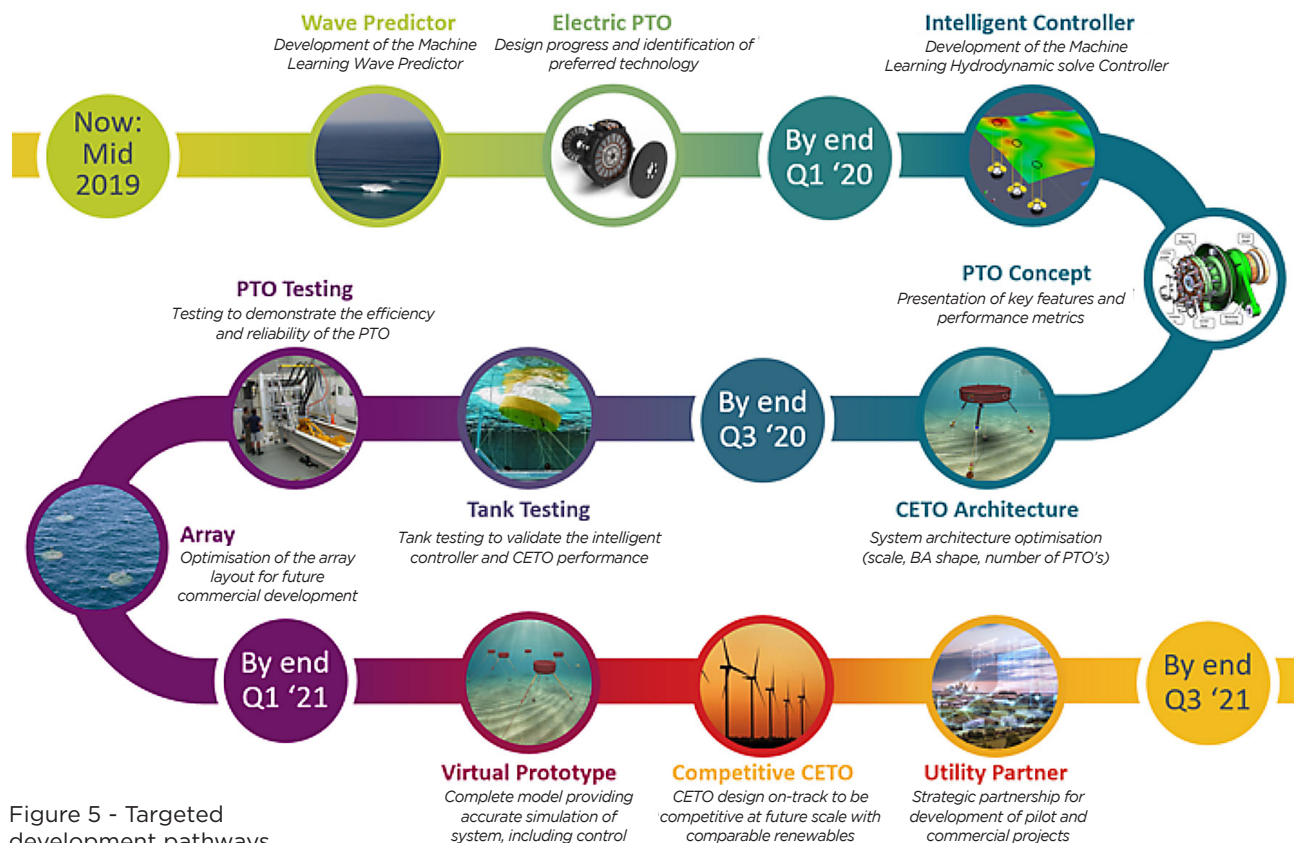


Figure 5 - Targeted development pathways.

In formulating the new business strategy for the continued development of the CETO technology, the Board has identified the following key milestone targets:

- (i) Quarter 1, 2020
In early 2020, Carnegie will seek to conclude the first step of its work towards developing an “intelligent wave energy converter” and deliver the wave predictor tool (**Wave Predictor**), a piece of machine learning (**ML**) software that aims to predict the precise shape and strength of each wave up to 30 seconds before it reaches a CETO Unit. This is a crucial step towards the development of an ML controller (**ML Controller**) that aims to unlock improved economics through improving performance and reducing costs. In addition to its key role in the CETO Technology development, the Wave Predictor could also potentially be a product with applications outside wave energy in industries such as shipping, aquaculture and offshore construction.

During this initial period, Carnegie will also seek to improve its PTO design, with the aim of reducing the cost and complexity of the technology. This will involve engagement with the electric vehicle (EV) supply chain that is making gains in mass produced, low cost, high efficiency electric motor/generator units.

(ii) Quarter 3, 2020

Carnegie will seek to finalise the balance of its ML tools, delivering an ML hydrodynamic solver (**ML Solver**) and an ML Controller. The purpose of the ML Solver is to solve Computational Fluid Dynamics (CFD) problems in real time which traditional software would take days to solve. The ML Controller, utilising the output of the Wave Predictor and ML Solver optimises the forces exerted by the PTOs to aim to maximise wave energy absorption. Comparable studies show that optimised force control can potentially increase energy absorption.

During this period, Carnegie intends to have updated the design of the PTO elements that work together with the selected electric generator such as the rotary translation system. At the end of this period, Carnegie is aiming to demonstrate progress to shareholders by presenting PTO key features and performance metrics.

In addition, Carnegie aims to be in a position to present the key characteristics and the system architecture of the optimised CETO Technology which would be deployed in future commercial projects. This will include the optimised unit dimensions, buoyant actuator shape and number of PTO's. Carnegie will also seek to have optimised the CETO Technology to incorporate additional innovations allowing the CETO Unit to shed high loads during extreme storms thus reducing capital costs by avoiding expensive overdesign which would otherwise require larger components, such as larger mooring systems and foundations. This work will be undertaken by leveraging existing CETO Technology intellectual property as well as developing new concepts.

Finally, Carnegie is aiming to be in a position to enter an agreement with a strategic supplier for the completion of the detailed design, testing and manufacture of the PTO.

(iii) Quarter 1, 2021

The work conducted to develop the ML Controller will be tested by performing a scaled tank testing campaign, with the aim of demonstrating and validating the improved performance of the CETO Unit when the ML Controller is implemented.

During this period, the Carnegie team will also seek to optimise the array layout for future commercial deployments, including for instance, looking at opportunities to share deployed infrastructure in order to reduce full array and over-all project deployment cost.

A comprehensive testing campaign is targeted for this period, to be conducted on the new PTO concept with the aim of demonstrating its benefits and reliability. This is expected to be in the form of small-scale onshore and in-water testing, potentially utilising the company's Rous Head facility.

The Company intends to merge the combined inputs from the prior work to form a virtual prototype that can operate in all sea-states, accurately simulate the physics of the system and incorporate the same ML controller logic that would be present on a physical device. Akin to an aeroplane flight simulator, the virtual prototype is intended to provide a level of reality that promotes sufficient confidence in Carnegie's partners to fund the first commercial wave farm and any prior requisite demonstration projects.

(iv) Quarter 3, 2021

Upon completion of the proposed two-year development program, Carnegie is aiming to complete the preliminary design of the optimised commercial version of its CETO Unit. Carnegie intends for this CETO Unit to be capable of being competitive with offshore wind energy when deployed at large scale following increasing cumulative deployments during an industry build out. The Company will seek to verify the reliability of the software, controller, subsystems and key components thorough physical testing undertaken during the development program. The Company will seek to understand and document the full-system performance, based on evidence from virtual prototyping and physical tests.

During this period, Carnegie also intends to provide updated pilot project parameters for the first commercial deployment of the CETO Unit and commercial pathway. This would include specifying the preferred location, the scale and number of CETO Units, project delivery mechanism as well as identifying key potential investors, with the ultimate aim to unlock funding for both a CETO Unit pilot project and the subsequent first commercial wave farm.

Figure 6 - clockwise from top left: array looking north with battery building in foreground; desalination container and tanks in foreground; array looking west out to offshore wave energy area; battery banks in climate controlled room.



(c) **Garden Island Microgrid**

Carnegie will operate the GIMG with an aim to provide power sales revenue and strengthen the value of the asset. Electricity and water supply agreements with the DoD are in place to allow the sale of power and water from the solar-battery and desalination systems owned by Carnegie. GIMG retains the facility to connect future wave energy device output and facilitate the sale of the power generated.

To strengthen the asset value and maximise profit, Carnegie will pursue extension of the relevant supply agreements, reduction in operation and maintenance costs, and optimisation of the operation of the battery system.

4 Details of the Offers



4.1 Entitlement Offer

The offer is a non-renounceable pro rata entitlement issue of four (4) New Shares for every one (1) Share held by Eligible Shareholders on the Record Date at an issue price of \$0.001 per New Share to raise up to \$11,525,810 (before costs) (**Entitlement Offer**).

Under this Prospectus, Eligible Shareholders, being Shareholders on the Record Date with a registered address in Australia or New Zealand, are eligible to participate in the Entitlement Offer.

At the date of this Prospectus, the Company has on issue:

| Class | Number |
|-------------------|------------------------------|
| Shares | 2,881,452,450 ⁽¹⁾ |
| Options | 45,000,000 ⁽²⁾ |
| Convertible Notes | 450 ⁽³⁾ |

Notes:

1. The exercise of an Option and/or the conversion of a Convertible Note will result in an increase in the total number of Shares.
2. 35,000,000 Options each with an exercise price of \$0.06 and an expiry date of 24 January 2024. 10,000,000 Options each with an exercise price of \$0.016 and an expiry date of 10 October 2021.
3. 450 Convertible Notes each with a face value of \$10,000, a conversion price of \$0.04 and a maturity date of 11 January 2020 (being CCE Notes).

The holders of existing Options will not be entitled to participate in the Entitlement Offer without first exercising their Options. The holders of the Convertible Notes will not be entitled to participate in the Entitlement Offer without first converting all, or part of, the Convertible Notes.

Assuming no Options are exercised and no Convertible Notes are converted before the Record Date, approximately 11,525,809,800 New Shares may be issued under the Entitlement Offer (subject to rounding).

Where the determination of the Entitlement of any Shareholder results in a fraction of a New Share, such fraction will be rounded up to the nearest whole New Share.

All of the New Shares will rank equally with the Shares on issue at the date of this Prospectus. Refer to Section 10.1 for a summary of the rights attaching to New Shares.

4.2 Additional Offers

(a) Lender Offer

This Prospectus also includes an offer of 2,260,000,000 New Shares (**Lender Shares**) together with 2,260,000,000 free attaching New Options (**Lender Options**) (together, the **Lender Securities**) to the CCE Noteholders and HFM (and/or their nominees) (**Lenders**) on conversion of 50% of their CCE Notes and HFM Bridge Loan currently on issue in the Company (**Lender Offer**). The Lender Offer under this Prospectus is made only to the Lenders (and/or their nominees).

The Lender Offer is conditional on receipt of Shareholder approval for the issue of the Lender Securities at the General Meeting.

The Lender Shares offered under the Lender Offer will rank equally with the existing Shares on issue. Refer to Section 10.1 for details of the rights and liabilities attaching to Shares.

The Lender Options offered under the Lender Offer will be issued on the terms and conditions detailed in Section 10.2.

The Lender Offer is also being made to facilitate secondary trading of the Shares to be issued upon exercise of the Lender Options. Issuing the Lender Options under this Prospectus will enable persons who are issued the Lender Options to on-sell the Shares issued on exercise of the Lender Options pursuant to ASIC Corporations Instrument 2016/80.

The Lenders (and/or their nominees) should refer to Section 4.12(c) for details of how to accept the Lender Securities.

(b) Funding Offer

This Prospectus also includes an offer of 500,000,000 New Shares (**Funding Shares**) together with 500,000,000 free attaching New Options (**Funding Options**) (together, the **Funding Securities**) to the Proponents (and/or their nominees) on conversion of the Funding Loan (**Funding Offer**). The Funding Offer under this Prospectus is made only to the Proponents (and/or their nominees).

The Funding Offer is conditional on receipt of Shareholder approval for the issue of the Funding Securities at the General Meeting.

The Funding Shares offered under the Funding Offer will rank equally with the existing Shares on issue. Refer to Section 10.1 for details of the rights and liabilities attaching to Shares.

The Funding Options offered under the Funding Offer will be issued on the terms and conditions detailed in Section 10.3.

The Funding Offer is also being made to facilitate secondary trading of the Shares to be issued upon exercise of the Funding Options. Issuing the Funding Options under this Prospectus will enable persons who are issued the Funding Options to on-sell the Shares issued on exercise of the Funding Options pursuant to ASIC Corporations Instrument 2016/80.

The Proponents (and/or their nominees) should refer to Section 4.12(d) for details of how to accept the Funding Securities.

(c) **2021 Notes Offer**

This Prospectus also includes an offer of 113 (one hundred and thirteen) 2021 Notes each with a face value of \$25,000 per 2021 Note to the Lenders (and/or their nominees) (**2021 Notes Offer**). The 2021 Notes Offer under this Prospectus is made only to the Lenders (and/or their nominees).

The 2021 Notes Offer is conditional on receipt of Shareholder approval for the issue of the 2021 Notes at the General Meeting.

The 2021 Notes offered under this Prospectus will have the terms and conditions detailed in Section 10.4.

The 2021 Notes Offer is being made with disclosure under this Prospectus to facilitate secondary trading of the Shares to be issued upon conversion of the 2021 Notes. Issuing the 2021 Notes under this Prospectus will enable persons who are issued the 2021 Notes to on-sell the Shares issued on conversion of the 2021 Notes pursuant to ASIC Corporations Instrument 2016/80.

The Lenders (and/or their nominees) should refer to Section 4.12(e) for details of how to accept the 2021 Notes.

4.3 Purpose and Use of Funds

The purpose of this Prospectus is to:

- (a) make the Offers;
- (b) ensure that the on-sale of the underlying Shares to be issued upon the exercise of the Lender Options and Funding Options is in accordance with ASIC Corporations Instrument 2016/80; and
- (c) ensure that the on-sale of the underlying Shares to be issued upon the conversion of the 2021 Notes is in accordance with ASIC Corporations Instrument 2016/80.

The main purpose of the Entitlement Offer is to raise funds in order to effect the Recapitalisation Proposal and effectuate the DOCA. Refer to Section 5 for the details of the Company's intended allocation of the proceeds of the Entitlement Offer.

4.4 Minimum Subscription

The Entitlement Offer has a minimum subscription of \$5,500,000 (before costs) (**Minimum Subscription**), being approximately 47.72% of the maximum size of the Entitlement Offer.

The Company considers that the Minimum Subscription is the minimum amount necessary to complete the Recapitalisation Proposal, satisfy the requirements under the DOCA and the conditions imposed by ASX for the reinstatement of the Company's securities to trading, and to implement the business strategy detailed in this Prospectus.

Accordingly, if the Minimum Subscription is not achieved, the Offers will not proceed and all Application Monies will be refunded to Applicants (without interest).

4.5 Underwriting

The Entitlement Offer is not underwritten.

4.6 Shortfall Offer

Any New Shares under the Entitlement Offer that are not applied for will form the Shortfall Shares. The offer to issue Shortfall Shares is a separate offer under this Prospectus (**Shortfall Offer**).

Under this Prospectus, the Company offers to issue the Shortfall Shares to Eligible Shareholders and other investors at the same price of \$0.001 per New Share as under the Entitlement Offer. The Shortfall Shares will have the same rights as the New Shares as detailed in Section 10.1.

Eligible Shareholders may apply for Shortfall Shares by completing the relevant section of their Entitlement and Acceptance Form (refer to Section 6.3 for further details). Other investors may also apply for Shortfall Shares by completing the Shortfall Application Form (refer to Section 6.7 for further details).

Shortfall Shares will be allocated in accordance with the allocation policy detailed in Section 4.7.

Shortfall Shares will not be offered or issued to any Applicant if, in the view of the Directors, to do so would increase that Applicant's voting power in the Company above 19.9% or otherwise result in a breach of the Listing Rules, the Corporations Act or any other applicable law.

An Application for Shortfall Shares accompanied by payment of Application Monies does not guarantee the allotment of any Shortfall Shares. The Shortfall Shares will be allocated within three months after the Closing Date.

In relation to the Shortfall Offer, the Company reserves the right to issue to an Applicant a lesser number of Shortfall Shares than the number applied for, reject an Application or not proceed with the issuing of the Shortfall Shares or part thereof. If the number of Shortfall Shares issued is less than the number applied for, surplus Application Monies will be refunded in full. Interest will not be paid on Application Monies refunded.

4.7 Shortfall Allocation Policy

If there is a Shortfall, the Company will allocate Shortfall Shares according to the following priority:

- (a) to each Eligible Shareholder who has applied for Shortfall Shares through the Shortfall Offer; and
- (b) if following the allocation in paragraph (a) there remains a Shortfall, to other Applicants for Shortfall Shares.



4.8 Offers Conditional

The Offers made under this Prospectus and the issue of New Securities pursuant to this Prospectus are subject to and conditional on:

- (a) the Shareholder approvals at the General Meeting being obtained;
- (b) the Company receiving confirmation from ASX that it will reinstate its Shares to trading, subject to the satisfaction of terms and conditions which are acceptable to the Company (refer to Section 2.6 for further details); and
- (c) the DOCA not having been terminated and the Company being of the view, acting reasonably, that any conditions to completion of the DOCA are capable of being satisfied,

(Offer Conditions).

At the General Meeting, the Company will seek Shareholder approval under the Listing Rules and the Corporations Act for, among other things:

- (a) the issue of New Shares under the Entitlement Offer;
- (b) the issue of the Lender Securities;
- (c) the issue of Funding Securities; and
- (d) the issue of the 2021 Notes.

Refer to Section 2.7 for details of the General Meeting.

Completion of the Offers is conditional on Shareholder approval for each of these matters being obtained. If one or more Shareholder approvals is not obtained, Carnegie will be unable to issue the required number of securities under its capacity under Listing Rules 7.1 and 7.1A and the Recapitalisation Proposal will not proceed. Accordingly, the Company will not proceed with the Offers in those circumstances and all Application Monies will be refunded in full (without interest).

4.9 No Rights Trading

The rights to New Shares under the Entitlement Offer are non-renounceable. Accordingly, there will be no trading of rights on ASX and you may not dispose of your rights to subscribe for New Shares under the Offer to any other party. If you do not take up your Entitlement to New Shares under the Offer by the Offer Closing Date, your Entitlement will lapse.

4.10 Opening and Closing Dates

The Company will accept Entitlement Acceptance Forms in respect of the Entitlement Offer from Eligible Shareholders from the Opening Date until 5.00pm (WST) on the Closing Date or such other date as the Directors in their absolute discretion shall determine, subject to the Listing Rules.

Please note that payment made by BPAY[®] must be received no later than 5.00pm (WST) on the Closing Date. It is the responsibility of all Eligible Shareholders to ensure that their BPAY[®] payments are received by the Company on or before the Closing Date.

The closing date for the Lender Offer is 4 September 2019 (**Lender Offer Closing Date**). The Company will accept the Lender Offer Application Forms from 9 August 2019 until the Lender Offer Closing Date.

The closing date for the Funding Offer is 4 September 2019 (**Funding Offer Closing Date**). The Company will accept the Funding Offer Application Forms from 9 August 2019 until the Funding Offer Closing Date.

The closing date for the 2021 Notes Offer is 4 September 2019 (**2021 Notes Closing Date**). The Company will accept the 2021 Notes Application Forms from 9 August 2019 until the 2021 Notes Offer Closing Date.

The Company reserves the right, subject to the Corporations Act and the Listing Rules, to extend the closing dates of the Offers without prior notice. If a closing date is varied, subsequent dates may also be varied accordingly.

4.11 Risks of the Offers

As with any securities investment, there are risks associated with investing in the Company. However, having regard to the matters detailed in Sections 2 and 3 and the risks applicable to the Company and its business detailed in Section 7, Eligible Shareholders should be aware that an investment in the New Securities should be considered highly speculative and there exists a risk that you may, in the future, lose some or all of the value of your investment.

Before deciding to invest in the Company, investors should read this Prospectus in its entirety, in particular the specific risks associated with an investment in the Company (detailed in Section 7), and should consider all factors in light of their personal circumstances and seek appropriate professional advice.

4.12 Application Forms and BPAY[®] Payments

(a) Entitlement Offer

Acceptance of a completed Entitlement and Acceptance Form, or alternatively, a BPAY[®] payment, by the Company creates a legally binding contract between the Applicant and the Company for the number of New Shares accepted by the Company. The Entitlement and Acceptance Form does not need to be signed to be a binding acceptance of New Securities.

If the Entitlement and Acceptance Form is not completed correctly it may still be treated as valid. The Directors' decision whether to treat a completed Entitlement and Acceptance Form as valid and how to construe, amend or complete the Entitlement and Acceptance Form is final.

A personalised Entitlement and Acceptance Form will be issued to the Eligible Shareholders together with a copy of this Prospectus.

(b) **Shortfall Offer**

A Shortfall Application Form will be provided to certain persons wishing to participate in the Shortfall upon invitation from the Company. Acceptance of a completed Shortfall Application Form by the Company creates a legally binding contract between the Applicant and the Company for the number of Shortfall Shares accepted by the Company. The Shortfall Application Form does not need to be signed to be a binding acceptance of Shortfall Securities.

If the Shortfall Application Form is not completed correctly it may still be treated as valid. The Directors' decision whether to treat a completed Shortfall Application Form as valid and how to construe, amend or complete the Shortfall Application Form is final.

A Shortfall Application Form will be issued to certain investors together with a copy of the Prospectus.

(c) **Lender Offer**

The Lender Offer is an offer to the Lenders only.

Only Lenders can accept an offer for the Lender Securities under the Lender Offer. A personalised Lender Offer Application Form will be issued to each Noteholder together with a copy of this Prospectus. The Company will only provide a Lender Offer Application Form to the persons entitled to participate in the Lender Offer.

No brokerage, commission or stamp duty is payable by the Lenders on subscription or issue of the Lender Securities pursuant to the Lender Offer.

The completed Lender Offer Application Form should be returned to the Company prior to 5:00pm (WST) on the Lender Offer Closing Date.

(d) **Funding Offer**

The Funding Offer is an offer to the Proponents only.

Only the Proponents can accept the Funding Securities under the Funding Offer. A personalised Funding Offer Application Form will be issued to the Proponents together with a copy of this Prospectus. The Company will only provide a Funding Offer Application Form to the Proponents.

No brokerage, commission or stamp duty is payable by the Proponent on subscription or issue of the Funding Securities pursuant to the Funding Offer.

The completed Funding Offer Application Form should be returned to the Company prior to 5:00pm (WST) on the Funding Offer Closing Date.

(e) **2021 Notes Offer**

The 2021 Notes Offer is an offer to the Lenders only.

Only the Lenders can accept the 2021 Notes under the 2021 Notes Offer. A personalised 2021 Notes Offer Application Form will be issued to the Lenders together with a copy of this Prospectus. The Company will only provide a 2021 Notes Offer Application Form to the Lenders.

No brokerage, commission or stamp duty is payable by the Lenders on subscription or issue of the 2021 Notes pursuant to the 2021 Notes Offer.

The completed 2021 Notes Offer Application Form should be returned to the Company prior to 5:00pm (WST) on the 2021 Notes Offer Closing Date.

4.13 Issue and Dispatch

All New Securities under the Offers are expected to be issued on or before the dates specified in the Indicative Timetable.

It is the responsibility of Applicants to determine their allocation prior to trading in New Shares. Applicants who sell New Shares before they receive their holding statements will do so at their own risk.

Shortfall Shares may be issued within three months after the Closing Date.

4.14 Application Monies held on trust

All Application Monies will be held on trust in a bank account maintained solely for the purpose of depositing Application Monies received pursuant to this Prospectus until the New Shares are issued. All Application Monies will be returned (without interest) if the New Shares are not issued and the Entitlement Offer does not proceed.

4.15 ASX Quotation

Application will be made to ASX no later than seven days after the date of this Prospectus for Official Quotation of the New Shares offered under this Prospectus. If ASX does not grant Official Quotation of the New Shares within three months after the date of this Prospectus (or such period as the ASX allows), no New Shares will be issued or allotted under the Offers and the Company will repay, as soon as practicable, without interest, all Application Monies received pursuant to this Prospectus.

ASX takes no responsibility for the contents of this Prospectus. The fact that ASX may grant Official Quotation is not to be taken in any way as an indication of the merits of the Company or its Securities.

4.16 Withdrawal

The Directors may at any time decide to withdraw this Prospectus and the Offers, in which case, the Company will return all Application Monies (without interest) in accordance with the Corporations Act.

4.17 CHES

The Company participates in the Clearing House Electronic Subregister System, known as CHES. ASX Settlement, a wholly owned subsidiary of ASX, operates CHES in accordance with the Listing Rules and Securities Clearing House Business Rules. Under CHES, Applicants will not receive a certificate but will receive a statement of their holding of New Shares.

If you are broker sponsored, ASX Settlement will send you a CHES statement.

The CHES statement will detail the number of New Shares issued under this Prospectus, provide details of your holder identification number, the participant identification number of the sponsor and the terms and conditions applicable to the New Shares.



If you are registered on the Issuer Sponsored subregister, your statement will be dispatched by the Share Registry and will contain the number of New Shares issued to you under this Prospectus and your security holder reference number.

A CHESSE statement or Issuer Sponsored statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their shareholding changes. Shareholders may request a statement at any other time, however, a charge may be made for additional statements.

4.18 Foreign Shareholders

The Entitlement Offer is not being extended to any Shareholders whose registered address is outside Australia or New Zealand. The Company is of the view that it is unreasonable to make the Entitlement Offer to Shareholders outside Australia or New Zealand, having regard to:

- (a) the number of those Shareholders;
- (b) the number and value of Shares to be offered to those persons; and
- (c) the cost of complying with overseas legal requirements.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer other than for Shareholders in Australia or New Zealand. The Company is not required to make Entitlement Offer under this Prospectus to Shareholders other than in Australia or New Zealand. Where this Prospectus has been dispatched to Shareholders domiciled outside Australia or New Zealand and where the country's securities code or legislation prohibits or restricts in any way the making of the Entitlement Offer, this Prospectus is provided for information purposes only.

Shareholders resident in Australia or New Zealand holding Shares on behalf of persons who are resident overseas are responsible for ensuring that taking up Entitlement under the Entitlement Offer does not breach regulations in the relevant overseas jurisdiction. Return of a duly completed Entitlement and Acceptance Form will be taken by the Company to constitute a representation that there has been no breach of those regulations.

4.19 Taxation Implications

The Directors do not consider it appropriate to give Applicants advice regarding the taxation consequences of subscribing for New Securities.

The Company, its advisers and its officers do not accept any responsibility or liability for any such taxation consequences to Applicants. Applicants should consult their own professional tax adviser to obtain advice in relation to the taxation laws, regulations and implications applicable to their personal circumstances.

4.20 Major Activities and Financial Information

A summary of the major activities and financial information relating to the Company for the financial year ended 30 June 2018 is contained in the Annual Report, which is available on the Company's website at www.carnegiece.com.

A summary of the major activities and financial information relating to the Company for the half year ended 31 December 2018 is contained in the Half Yearly Report, which is available on the Company's website at www.carnegiece.com.

The Company's continuous disclosure notices (i.e. ASX announcements) since the lodgement of its Annual Report for the year ended 30 June 2018 with ASX on 19 October 2018 are detailed in Section 11.1.

Copies of these documents are available free of charge from the Company or the Company's website: www.carnegiece.com. Directors strongly recommend that Applicants review these and all other announcements prior to deciding whether or not to participate in the Offers.

4.21 Privacy

The Company collects information about each Applicant provided on an Application Form for the purposes of processing the Application and, if the Application is successful, to administer the Applicant's security holding in the Company.

By submitting an Application Form, each Applicant agrees that the Company may use the information provided by an Applicant on the Application Form for the purposes detailed in this privacy disclosure statement and may disclose it for those purposes to the Share Registry, the Company's related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisers, and to ASX and regulatory authorities.

If you do not provide the information required on Application Form, the Company may not accept or process your Application.

An Applicant has an entitlement to gain access to the information that the Company holds about that person subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing to the Company's registered office.

4.22 Enquiries concerning Prospectus

Enquiries relating to this Prospectus should be directed to can also be directed to Mr Shane Murphy of FTI Consulting on +61 8 9321 8533.

5 Effect of the Offers and the Recapitalisation Proposal



5.1 Use of Funds

The Entitlement Offer is intended to raise a minimum of \$5,500,000 (before costs) and a maximum of \$11,525,810 (before costs).

The following tables are statements of the Board's current intentions as at the date of this Prospectus. However, Shareholders should note that, as with any budget, the allocation of funds detailed in the following tables may change depending on a number of factors, including the outcome of operational and development activities, regulatory developments, market and general economic conditions and environmental factors. In light of this, the Board reserves the right to alter the way the funds are applied.

The following tables show the expected use of funds in the 12 month period following completion of the Entitlement Offer and the Recapitalisation Proposal.

(a) **Minimum Subscription to the Offers**

If the Company achieves the Minimum Subscription, the Company intends to use the proceeds of the Entitlement Offer in accordance with the following table:

| | Use of Funds (\$) | % |
|--|-------------------|-------------|
| CETO Development ¹ | 2,203,404 | 40% |
| Corporate Overheads ² | 993,786 | 18% |
| Garden Island Microgrid ³ | 456,220 | 8% |
| Administration Costs (Creditors' Trust Payment) ⁴ | 1,400,000 | 25% |
| Costs of the Offers | 234,500 | 4% |
| Working Capital | 212,090 | 3% |
| Total | 5,500,000 | 100% |

Notes:

1. Funds will be utilised for the development of the CETO Technology (including PTO development and testing, tank testing, machine learning development and simulations via the Pawsey research supercomputer, system design and optimisation and hydrodynamic development), salary and wages associated with the technical team and the engagement of external consultants / additional technical team members.
2. Corporate overheads include accounting fees, insurance, office lease payments and audit fees.
3. Funds will be utilised for (amongst other matters) additional potential capital costs, annual operational costs and costs associated with the arrangement with the DoD.
4. The administration costs consist of the Creditors' Trust Payment, professional fees and disbursements associated with the voluntary administration process, which the Company is due to pay to the Creditors' Trust following the sale of available assets. The payment may be reduced to the extent that the proceeds of the sale of assets during the administration process are greater than anticipated.

Refer to Section 11.8 for further details of the costs of the Offers.

(b) **75% Subscription**

If the Company receives subscriptions to the Entitlement Offer of 75%, the Company intends to pay down \$1 million of the 2021 Notes. The increase in CETO development funds will allow judicious expansion of the research team and an increase in use of suppliers to accelerate development.

The Company intends to use the proceeds of the Entitlement Offer as detailed in the following table:

| | Use of Funds (\$) | % |
|--|-------------------|-------------|
| CETO Development ¹ | 2,840,404 | 33% |
| Corporate Overheads ² | 1,021,786 | 12% |
| Garden Island Microgrid ³ | 456,220 | 5% |
| 2021 Notes Repayment | 1,000,000 | 12% |
| Administration Costs (Creditors' Trust Payment) ⁴ | 1,400,000 | 16% |
| Costs of the Offers | 250,000 | 3% |
| Working Capital | 1,631,590 | 19% |
| Total | 8,600,000 | 100% |

Notes:

1. Funds will be utilised for the development of the CETO Technology (including PTO development and testing, tank testing, machine learning development and simulations via the Pawsey research supercomputer, system design and optimisation and hydrodynamic development), salary and wages associated with the technical team and the engagement of external consultants / additional technical team members.
2. Corporate overheads include accounting fees, insurance, office lease payments and audit fees.
3. Funds will be utilised for (amongst other matters) additional potential capital costs, annual operational costs and costs associated with the arrangement with the DoD.
4. The administration costs consist of the Creditors' Trust Payment, professional fees and disbursements associated with the voluntary administration process, which the Company is due to pay to the Creditors' Trust following the sale of available assets. The payment may be reduced to the extent that the proceeds of the sale of assets during the administration process are greater than anticipated.

(c) **100% Subscription**

If the Company receives subscriptions to the Entitlement Offer of 100%, the Company intends to pay down \$2 million of the 2021 Notes. The increase in CETO development funds will allow judicious expansion of the research team and an increase in use of suppliers to accelerate development.

The Company intends to use the proceeds of the Entitlement Offer as detailed in the following table:



| | Use of Funds (\$) | % |
|--|-------------------|-------------|
| CETO Development ¹ | 3,250,404 | 28% |
| Corporate Overheads ² | 1,041,786 | 9% |
| Garden Island Microgrid ³ | 456,220 | 4% |
| 2021 Notes Repayment | 2,000,000 | 17% |
| Administration Costs (Creditors' Trust Payment) ⁴ | 1,400,000 | 12% |
| Costs of the Offers | 275,000 | 2% |
| Working Capital | 3,102,400 | 27% |
| Total | 11,525,810 | 100% |

Notes:

- Funds will be utilised for the development of the CETO Technology (including PTO development and testing, tank testing, machine learning development and simulations via the Pawsey research supercomputer, system design and optimisation and hydrodynamic development), salary and wages associated with the technical team and the engagement of external consultants / additional technical team members.
- Corporate overheads include accounting fees, insurance, office lease payments and audit fees.
- Funds will be utilised for (amongst other matters) additional potential capital costs, annual operational costs and costs associated with the arrangement with the DoD.
- The administration costs consist of the Creditors' Trust Payment, professional fees and disbursements associated with the voluntary administration process, which the Company is due to pay to the Creditors' Trust following the sale of available assets. The payment may be reduced to the extent that the proceeds of the sale of assets during the administration process are greater than anticipated.

5.2 Capital structure on completion of the Offers and Recapitalisation Proposal

On the basis that the Company completes the Offers, the Company's capital structure will be as follows:

| | Shares | Options | CCE Notes ⁽¹⁾ | ARENA Notes ⁽²⁾ | 2021 Notes ⁽³⁾ |
|---|-----------------------|------------------------------|--------------------------|----------------------------|---------------------------|
| Balance as at the date of this Prospectus | 2,881,452,450 | 45,000,000 ⁽⁴⁾ | 450 | 16 | - |
| Lapse of ARENA Notes | - | - | - | (16) | - |
| Conversion of CCE Notes and HFM loan | 2,260,000,000 | 2,260,000,000 ⁽⁵⁾ | (450) | - | 113 |
| 2021 Notes - Interest Shares | 357,833,333 | - | - | - | - |
| Conversion of Funding Loan | 500,000,000 | 500,000,000 ⁽⁶⁾ | - | - | - |
| Entitlement Offer - Minimum Subscription | 5,500,000,000 | | | | |
| TOTAL- MINIMUM⁽⁷⁾ | 11,499,285,783 | 2,805,000,000 | - | - | 113 |
| Entitlement Offer - Maximum Subscription | 6,025,809,800 | - | - | - | - |
| TOTAL- MAXIMUM⁽⁷⁾ | 17,525,095,583 | 2,805,000,000 | - | - | 113 |
| Conversion of 2021 Notes | 2,260,000,000 | 2,260,000,000 | - | - | 113 |
| TOTAL- MINIMUM⁽⁸⁾ | 13,759,285,783 | 5,065,000,000 | - | - | - |
| TOTAL- MAXIMUM⁽⁸⁾ | 19,785,095,583 | 5,065,000,000 | - | - | - |

Notes:

- 450 Convertible Notes each with a face value of \$10,000, a conversion price of \$0.04 and a maturity date of 11 January 2020 (being the CCE Notes).
- 16 Convertible Notes each with a face value of \$100,000, a conversion price of \$0.053 and a maturity date of 24 January 2024 (being the ARENA Notes).
- Convertible Notes each with a face value of \$25,000, a conversion price of \$0.00125 and 1 free attaching Option exercisable at \$0.0015 per Option expiring 5 years from the date of issue, a maturity date of 31 March 2021 with a coupon of 8% per annum, payable by way of the issue of Shares at an issue price equal to the 90 day VWAP of Shares, restricted 12 months from issue.
- 35,000,000 Options each with an exercise price of \$0.06 and an expiry date of 24 January 2024. 10,000,000 Options each with an exercise price of \$0.016 and an expiry date of 10 October 2021.
- Options free attaching to Shares issued on conversion of CCE Notes and HFM Bridge Loan, exercisable at \$0.0015 per Share expiring 3 years from the date of issue, and subject to voluntary escrow for a period of 6 months from issue. Refer to Schedule 3 for details of the Lender Options.
- Options free attaching to the Shares issued on conversion of the Funding Loan exercisable at \$0.00125 per share and expiring 5 years from the date of issue. Refer to Schedule 3 for details of the Funding Options.
- Does not include the conversion of the 2021 Notes (which will be a maximum of 2,260,000,000 Shares and 2,260,000,000 Options).
- Assuming that all of the 2021 Notes convert into Shares and Options and none of these 2021 Notes are repaid.

5.3 Dilution

Shareholders should be aware that they will be subject to dilution by reason of the Company undertaking the Recapitalisation Proposal, including by way of:

- New Shares issued on conversion of the CCE Notes and HFM Bridge Loan under the DOCA, and on the exercise of free attaching New Options to those Shares;
- New Shares issued on conversion of the Funding Loan under the DOCA, and on the exercise of free attaching New Options to those Shares;
- New Shares and Options issued on conversion of the 2021 CCE Notes and the payment of interest via the issue of the Interest Shares; and
- New Shares issued under the Entitlement Offer.

If a Shareholder takes up their entitlements in full, the maximum dilution effect based on the Company's total issued share capital as at the date of completion of the Recapitalisation Proposal is approximately 16.1%. If a shareholder takes up their full entitlement and only the Minimum Subscription is achieved, the shareholder will increase their percentage interest in the Company by approximately 23%.

The table below provides an estimate on how dilution as a result of the Recapitalisation Proposal may affect Shareholders.

| Shareholder | Shareholding as at the date of this Prospectus | % | Entitlement under the Entitlement Offer (Minimum Subscription) | Entitlement under the Entitlement Offer (Maximum Subscription) | % ¹ | % ² | % ³ | % ⁴ |
|---------------|--|-------|--|--|----------------|----------------|----------------|----------------|
| Shareholder 1 | 7,203,631 | 0.25% | 13,750,000 | 28,814,524 | 0.18% | 0.11% | 0.20% | 0.14% |
| Shareholder 2 | 28,814,525 | 1.00% | 55,000,001 | 115,258,100 | 0.72% | 0.43% | 0.81% | 0.56% |
| Shareholder 3 | 50,425,418 | 1.75% | 96,250,000 | 201,701,672 | 1.25% | 0.75% | 1.42% | 0.98% |
| Shareholder 4 | 72,036,311 | 2.50% | 137,499,999.4 | 288,145,244 | 1.79% | 1.07% | 2.03% | 1.41% |
| Shareholder 5 | 144,072,623 | 5.00% | 275,000,000.8 | 576,290,492 | 3.58% | 2.14% | 4.06% | 2.81% |

Notes:

- On completion of the Recapitalisation Proposal on an undiluted basis and assuming Minimum Subscription.
- On completion of the Recapitalisation Proposal on a fully diluted basis and assuming Minimum Subscription.
- On completion of the Recapitalisation Proposal on an undiluted basis and assuming Maximum Subscription.
- On completion of the Recapitalisation Proposal on a fully diluted basis and assuming Maximum Subscription.

5.4 Pro Forma Statement of Financial Position

Included in the financial information in Section 8 is the Company's Consolidated Statement of Financial Position as at 31 December 2018 (unaudited) and the Company's Pro Forma Consolidated Statement of Financial Information as at 31 December 2018 (unaudited), incorporating the effect of the Recapitalisation Proposal (including completion of the Offer) and completion of the DOCA (**Statements**).

The Statements are presented in abbreviated form insofar as they do not include all the disclosures that are present in annual financial reports as required by Australian Accounting Standards. The significant accounting policies that underpin the Statements are the same policies as those outlined in the Company's Annual Report for the year ended 30 June 2018.

The Pro Forma Consolidated Statement of Financial Position has been prepared on the basis that there are no material movements in the assets and liabilities of the Company between 31 December 2018 and the completion of the Offer, except for the Recapitalisation Proposal as detailed in Section 2.

5.5 Corporate Governance

(a) The Board of Directors

The primary responsibility for the Board is to represent and advance Shareholder's interests and to protect the interests of all stakeholders. To fulfil this role the Board is responsible for the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

The Board recognises the need for the Company to operate with the highest standards of behaviour and accountability. The Company has adopted the *ASX Corporate Governance Principles and Recommendations* with some amendments where applicable after giving consideration to the Group's size and the resources it has available.

As the Company's activities develop in size, nature and scope the implementation of additional corporate governance structures will be given further consideration. A summary of the Company's key policies follow.

(b) Board and Senior Executive Evaluation

The Board considers the ongoing development and improvement of its own performance as critical input to effective governance. The Board will undertake an annual evaluation of its effectiveness as a whole. The Chairman will review the individual performance of each Board member annually.

The Chairman's performance is evaluated by the Board annually. All senior executives of Carnegie are subject to an annual performance evaluation. Each year, senior executives establish a set of performance targets with her or his superior. These targets are aligned to overall business goals and requirements of the position.

(c) Code of Conduct

The Board, management and all employees of Carnegie are committed to implementing Carnegie's core principles and values as stated in this Code of Conduct when dealing with each other and with customers, suppliers, government authorities, creditors and the wider community.



Carnegie is dedicated to delivering the best performance possible for investors and employees using its resources. Carnegie aspires to be a leader in its field of wave energy development while operating openly, with honesty, integrity and responsibility and maintaining a strong sense of corporate social responsibility. In maintaining its corporate social responsibility Carnegie will conduct its business ethically and according to its values, encourage community initiatives, consider the environment and ensure a safe, equal and supportive workplace.

(d) Continuous Disclosure

In accordance with the Listing Rules, Carnegie will immediately notify the ASX of information concerning Carnegie that a reasonable person would expect to have a material effect on the price or value of Carnegie's securities. The only exception to this requirement is where the Listing Rules do not require such information to be disclosed.

Upon confirmation of receipt from the ASX, Carnegie will post all information disclosed to ASX on its website.

(e) Selection of External Auditor

The Board identifies and recommends an appropriate external auditor for appointment, in conjunction with senior management and/or Carnegie in general meeting. The appointment is made in writing.

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's accounts for a year of more than five consecutive years. Further, once rotated off Carnegie's accounts, no partner of the external auditor may assume any responsibility in relation to Carnegie's accounts for a year of five consecutive years.

The Company has appointed, with their consent, HLB Mann Judd as its auditors.

(f) Senior Executives Remuneration

Carnegie is committed to remunerating its senior executives in a manner that is market competitive, consistent with best practice and supports the interests of shareholders. Consequently, senior executives' remuneration consists of a fixed salary, statutory superannuation and, subject to the terms of their engagement, mobile phone expenses.

All reasonable out of pocket expenses incurred by the senior executive in connection with the performance of duties on behalf of Carnegie will be reimbursed.

(g) Non-executive Directors Remuneration

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 Board 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. At present the maximum aggregate remuneration of Non-Executive Directors is \$500,000 per annum.

The Remuneration Committee shall review and make recommendations to the main Board on remuneration packages and policies applicable to senior executives and directors themselves. The design of incentives is one of the most difficult tasks facing a Board and senior management.

It may be appropriate in the circumstances for the Remuneration Committee to consist of non-executive Directors so as to be seen to be independent.

(h) Remuneration Committee

The Company will established a separate Remuneration Committee to consider the remuneration of directors, senior executives, management and staff. 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 executive and directors;
- existing or proposed share option schemes;
- superannuation payments;
- retirement and termination payments;
- fringe benefits;
- professional indemnity and liability insurance policies;
- related party transaction disclosure in the financial statements;
- communication with major shareholders and institutional investors to gauge their views on remuneration packages; and
- annual leave policies (and long service leave).

The Committee will comprise non-executive directors Grant Mooney, Mike Fitzpatrick and Anthony Shields. Where remuneration of non-executive Directors is involved, independent external advice will be sought.

(i) Selection and Appointment of New Directors

Candidates for the Board are considered and selected by reference to a number of factors which include, but are not limited to, their relevant experience and achievements, compatibility with other Board members, credibility within Carnegie's scope of activities, and intellectual and physical ability to undertake Board duties and responsibilities. Directors are initially appointed by the full Board, subject to election by shareholders at the next general meeting.

(j) Risk Management

Risk recognition and management are viewed by Carnegie as integral to the Company's objectives of creating and maintaining shareholder value, and the successful execution of the Group's wave energy technology development and management of its Garden Island Microgrid asset.

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

financial and operational aspects of the Group's affairs.

Management reports to the Board annually in relation to the key business risks, the control system in place to manage such risks and how effective the risk management system is operating.

The Company also has a separately established Audit Committee which is charged with monitoring company risks.

(k) Security Trading

Carnegie recognises that directors, officers and employees may hold securities in Carnegie and that most investors are encouraged by these holdings. It is the responsibility of the individual director, officer or employee to ensure that any trading by the director, officer or employee complies with the Corporations Act 2001, the Listing Rules and the Company's policies.

A breach of this policy may lead to disciplinary action. It may also be a breach of the law.

The Company has established procedures and protocols to be complied with if a director, officer or employee wishes to trade in the Company's securities.

(l) Shareholder Communication Policy

The Company aims to ensure that shareholders are informed of all major developments affecting Carnegie. 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 Company's annual general meeting.

In addition, the Company maintains a website at www.carnegiece.com which is regularly updated.

(m) 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.

(n) Matters for Approval by the Board of Directors

The Board has adopted a list of matters required to be brought before the Board for approval. This provides an important means of dividing responsibility between the Board and management, assisting those affected by corporate decisions to better understand the respective accountabilities and contributions of the Board and the senior executives.

(o) 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.

(p) Anti-Corruption and Anti-Bribery Policy

Carnegie will not tolerate corrupt conduct by employees of the organisation or by any directors, staff or contractors. Carnegie is committed to minimising the opportunities for corrupt conduct by directors, staff or contractors, taking a risk management approach to the identification and management of corruption risks.

The Chief Executive Officer has ultimate responsibility for managing corruption risks in the agency. The executive and senior management is responsible for ensuring that the agency's Corruption Prevention Plan is fully and effectively implemented.

Staff and contractors are responsible for behaving according to the code of conduct and agency policy. The policy will be communicated to and read by all Directors staff and relevant contractors.

5.6 Board, Management and Team

Following completion of the Recapitalisation Proposal, existing Directors (Messrs Mike Fitzpatrick, Terry Stinson and Grant Mooney) and senior management (Mr Jonathan Fiévez) will continue in their existing roles with the Company. In addition, it is proposed that Mr Anthony Shields will join the Board (on completion of the Recapitalisation Proposal) as a Non-Executive Director, representing Asymmetric.

The Board has a complementary balance of skills, knowledge and experience that will facilitate Carnegie successfully implementing the business strategy detailed in this Prospectus. In accordance with the Corporate Governance Principles and Recommendations, the Board previously undertook an assessment of its mix of skills and identified the balance of skills and experience detailed in the following table:

| Expertise | Industry | Qualifications |
|----------------------------|-------------------------------------|-----------------------|
| Renewable energy | Renewable energy | Business & accounting |
| Infrastructure | Power & electricity | Engineering |
| Industrial & manufacturing | Capital markets | Management |
| Engineering | Mineral exploration and mining | Electrical |
| Minerals & mining | Technology research and development | Science |
| Capital markets | Construction | |
| Research & development | Infrastructure | |

The experience and backgrounds of the existing and proposed Directors and management are detailed below.

(a) **Mr Terry Stinson, Non-Executive Chairman**

Mr Stinson has over 30 years of executive leadership experience with innovation companies globally. He was formerly the Chief Executive Officer and Managing Director of Orbital Corporation Ltd. He was previously also a Vice President and General Manager at Siemens AG responsible for overseeing an international business across multiple sites, over 1,200 staff and delivering sales in excess of US \$300m p.a. Mr Stinson was also previously CEO and MD at Synerject, VP Manufacturing Outboard Marine Corporation, Director Advanced R&D Product and Process Mercury Marine, division of Brunswick Corp, Project Engineer LT-5 Corvette engine, USA SME 1990 Young Engineer of the Year, and leadership positions supporting various international ventures with Yamaha, Honda, Chrysler, Penske and others. Mr Stinson is a non-executive director of Orbital and is also non-executive chair of Talga Resources Ltd.

(b) **Mr Michael Fitzpatrick, Non-Executive Director**

Mr Mike Fitzpatrick has over 40 years in the financial services sector. Committed to sustainability, Mr Fitzpatrick and his associated interests have made a range of investments in renewable energy and related technology development. Current investments include electric vehicles (California based Proterra) and high purity quartz for use in silicon manufacture (Creswick Quartz).

Mr Fitzpatrick holds a number of other non executive directorships, including Infrastructure Capital Group, Carnegie Clean Energy Limited and Latam Autos Limited. Mr Fitzpatrick is also a Trustee of the Rhodes Trust.

Infrastructure Capital Group is a leading Australian based mid market infrastructure fund manager with almost A\$1.8 billion in equity investments and with almost A\$500 million allocated to renewable energy in its recently launched Australian Renewable Infrastructure Fund (ARIF). Carnegie Clean Energy is a leading developer of utility scale solar projects as well as zero emission wave energy technology development.

In 1994 Mr Fitzpatrick founded Hastings Funds Management Ltd (Hastings), the pioneering infrastructure asset management company where he was Managing Director until he sold his interest in 2005. Hastings was then one of the largest managers of infrastructure and alternative assets in Australia (including infrastructure, high yield debt, private equity and timberland) managing investments of approximately A\$3.8 billion. Hastings' related directorships included Pacific Hydro, Australian Infrastructure Fund, Utilities Trust of Australia and Hastings Diversified Utilities Fund.

Prior to establishing Hastings, Mr Fitzpatrick was a director of CS First Boston. Mr Fitzpatrick also previously held positions with Merrill Lynch and First Boston in New York, the Victorian Treasury and Telecom Australia.

Mr Fitzpatrick is a former Chairman of Pacific Current Group Limited, Victorian Funds Management Corporation, the Australian Football League and the Australian Sports Commission, a former director of Rio Tinto Limited and Rio Tinto plc, a former member of the Melbourne Park Tennis Centre Trust, a former director of the Carlton Football Club and a former director of the Walter & Eliza Hall Institute of Medical Research.

Mr Fitzpatrick has a Bachelor of Engineering with Honours from the University of Western Australia and a Master of Arts from Oxford University where he was the 1975 Rhodes Scholar from Western Australia.

(c) **Mr Grant Mooney, Non-Executive Director**

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 Gibb River Diamonds Limited, appointed 14 October 2008, Barra Resources Limited, appointed 29 November 2002, Accelerate Resources Limited, appointed 1 July 2017, Talga Resources Limited, appointed 20 February 2014 and Riedel Resources Limited, appointed 31 October 2018.

Mr Mooney is also a member of the Institute of Chartered Accountants in Australia.

(d) **Mr Anthony Shields, Non-Executive Director (Proposed)**

Mr Shields is the current Managing Director of Asymmetric Investment Management Pty Ltd, a Perth-based investment manager specialising in private debt, venture capital and risk management. He also currently sits on a number of other company Boards in a non-executive capacity. Prior to Asymmetric, Anthony established and managed an investment portfolio for a large Family Office in Perth, Western Australia. He was responsible for asset allocation and portfolio management, risk management, investment and macro-economic analysis. He currently sits on the Board of another Perth-based Family Office, advising on investment strategy and portfolio management. Prior to his family office investment roles, Anthony worked for Deutsche Bank in equity and derivatives sales and trading and prior to this for Macquarie Bank as an equity analyst and institutional equity sales and trading.

(e) **Mr Jonathan Fiévez, Chief Executive Officer**

Formerly Carnegie's CTO, Mr Fiévez has served the company for 11 years as part of the executive team and has extensive knowledge about the CETO technology, the wave energy industry and the broader renewables sector. He is a qualified mechatronic engineer with diverse experience ranging from general management to innovation, commercialisation and technical leadership. He is a named inventor on a number of CETO patents. Prior to Carnegie, Jonathan led a team of engineers and technicians developing a new technology to detect cracks in aircraft structure. The technology was successfully applied to various airframes including the Airbus A380 and Eurofighter. Jonathan spent a number of years in Europe working closely with key clients including Airbus and EADS.



6.1 Eligible Shareholders

Your entitlement to participate in the Entitlement Offer will be determined on the Record Date. The number of New Shares which Eligible Shareholders are entitled to is shown on the Entitlement and Acceptance Form accompanying this Prospectus. Eligible Shareholders may:

- accept all or part of their Entitlement; or
- accept all of their Entitlement and apply for Shortfall Shares; or
- decline to exercise all or part of their Entitlement and allow it to lapse

If you are an Eligible Shareholder and wish to accept all or part of your Entitlement:

- carefully read this Prospectus in its entirety;
- consider the risks associated with an investment in the Company (refer to Section 7) in light of your personal circumstances;
- complete the relevant personalised Entitlement and Acceptance Form in accordance with the instructions contained in this Prospectus and detailed on the Entitlement and Acceptance Form; and
- return the completed Entitlement and Acceptance Form together with the Application Monies (in full) in accordance with Section 6.8, so that it is received at the following address by no later than 5.00pm (WST) on the Closing Date:

Security Transfer Australia Pty Ltd
PO Box 52
Collins Street West VIC 8007

6.2 Acceptance of all of your Entitlement under the Entitlement Offer

If you wish to accept all of your Entitlement, then applications for New Shares must be made on the Entitlement and Acceptance Form in accordance with the instructions in this Prospectus and on the Entitlement and Acceptance Form. Please read the instructions carefully.

Please complete the personalised Entitlement and Acceptance Form in accordance with the instructions detailed on the form and return the completed form, together with the Application Monies (in full), in accordance with Section 6.8, to the Share Registry so that it is received by the Share Registry by no later than 5:00pm (WST) on the Closing Date.

6.3 Acceptance of all of your Entitlement and applying for Shortfall Shares

If you are an Eligible Shareholder and wish to apply for Shortfall Shares under the Shortfall Offer, you must complete the relevant sections on the Entitlement and Acceptance Form, in accordance with the instructions referred to in this Prospectus and on the Entitlement and Acceptance Form, including the number of Shortfall Shares you wish to apply for under the Shortfall Offer and the total Application Monies (calculated at \$0.001 per Shortfall Share applied for under the Shortfall Offer). Please read the instructions carefully.

Please return the Entitlement and Acceptance Form, together with the Application Monies (in full) in accordance with Section 6.8, to the Share Registry so that it is received by the Share Registry by no later than 5.00pm (WST) on the Closing Date.

6.4 Acceptance of part of your Entitlement and allowing the balance to lapse

If you wish to take up part of your Entitlement and allow the balance to lapse, complete the personalised Entitlement and Application Form in accordance with the instructions referred to in this Prospectus and the instructions detailed on the form, including the number of New Shares you wish to accept and the Application Monies (calculated at \$0.001 per New Share accepted). Please read the instructions carefully.

Please return the completed Entitlement and Acceptance Form, together with the Application Monies (calculated at \$0.001 per New Share accepted), in accordance with Section 6.8, to the Share Registry so that it is received by the Share Registry by no later than 5.00pm (WST) on the Closing Date.

6.5 Entitlement not taken up

If you do not wish to accept any of your Entitlement under the Entitlement Offer, you are not obliged to do anything. You will receive no benefit or New Shares and your Entitlement under the Entitlement Offer will become Shortfall Shares.

The number of Shares you hold and the rights attached to those Shares will not be affected should you choose not to accept any of your Entitlement.

6.6 Ineligible Shareholders

If you are an Ineligible Shareholder, you may not accept any of, or do anything in relation to, your Entitlement. Refer to Section 4.18 for treatment of Ineligible Shareholders.

6.7 Applications for Shortfall Shares under the Shortfall Offer

If you are not an Eligible Shareholder and you wish to apply for Shortfall Shares under the Shortfall Offer, you must complete the relevant sections on the Shortfall Application Form, in accordance with the instructions on the Shortfall Application Form, including the number of Shortfall Shares you wish to apply for under the Shortfall Offer and the total Application Monies (calculated at \$0.001 per Shortfall Share applied for under the Shortfall Offer). Please read the instructions carefully.

Please return the Shortfall Application Form, together with the Application Monies (in full) in accordance with Section 6.8, to the Share Registry so that it is received by the Share Registry by no later than 5.00pm (WST) on the Closing Date.

6.8 Payment

The offer price of New Shares under the Offers is \$0.001 per New Share or Shortfall Share.

For Applicants participating in the Entitlement Offer or Shortfall Offer, Application Monies must be received by the Company by 5.00pm (WST) on the Closing Date.

Completed Application Forms must be accompanied by a cheque, bank draft or money order drawn in Australian dollars, made payable to "Carnegie Clean Energy" and crossed 'Not Negotiable'.



Eligible Shareholders participating in the Entitlement Offer or Shortfall Offer who wish to pay via BPAY[®] must follow the instructions on the Entitlement Acceptance Form or Shortfall Application Form. You will be deemed to have accepted all or part of your Entitlement (as applicable) or applied for Shortfall Shares upon receipt of the BPAY[®] payment by the Company. If paying via BPAY[®], Applicants should be aware that their own financial institution may implement earlier cut off times with regards to electronic payment and it is the responsibility of Applicants to ensure that funds are submitted through BPAY[®] by the date and time mentioned above. If you elect to pay via BPAY[®], you must follow the instructions for BPAY[®] detailed in the Application Forms and you will not need to return the Application Forms.

The Company shall not be responsible for any postal or delivery delays, or delay in the receipt of the BPAY[®] payment.

6.9 Representations by Applicants

By completing and returning an Application Form or paying any Application Monies by BPAY[®], in addition to the representations detailed elsewhere in this Prospectus and the Application Form, you:

- (a) if participating in the Entitlement Offer, represent to the Company that you are an Eligible Shareholder;
- (b) acknowledge that you have received a copy of this Prospectus and an accompanying Application Form, and read them both in their entirety;
- (c) agree to be bound by the terms of the Entitlement Offer and Shortfall Offer, the provisions of this Prospectus and the Constitution;
- (d) authorise the Company to register you as the holder(s) of the New Shares allotted to you;
- (e) declare that all details and statements in the Application Form are complete and accurate;
- (f) declare that you are over 18 years of age and have full legal capacity and power to perform all your rights and obligations under the Application Form;
- (g) acknowledge that once the Application Form is returned, or a BPAY[®] payment instruction is given in relation to any Application Monies, the Application may not be varied or withdrawn except as required by law;
- (h) agree to accept and be issued up to the number of New Shares specified in the Application Form at the issue price of \$0.001 per New Share;
- (i) authorise the Company and its respective officers or agents to do anything on your behalf necessary for the New Shares to be issued to you, including to act on instructions of the Share Registry upon using the contact details detailed in the Application Form;
- (j) if participating in the Entitlement Offer, declare that you were the registered holder at 5.00 pm (WST) on the Record Date of the Shares indicated on your personalised Entitlement and Acceptance Form as being held by you at 5.00 pm (WST) on the Record Date;
- (k) acknowledge the statement of risks in Section 7 and that an investment in the Company is subject to risk;
- (l) represent and warrant that the law of any place does not prohibit you from being given this Prospectus and the Application Form, nor does it prohibit you from accepting New Shares and that if you participate in the Entitlement Offer, that you are eligible to do so;
- (m) represent and warrant that you are not in the United States and you are not acting for the account or benefit of a person in the United States;
- (n) understand and acknowledge that neither the Entitlement or New Shares have been, or will be, registered under the United States Securities Act of 1933, as amended (**US Securities Act**) or the securities laws of any state or other jurisdiction in the United States, or in any other jurisdiction outside Australia or New Zealand and accordingly, the New Shares may not be offered, sold or otherwise transferred except in accordance with an available exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and any other applicable securities laws;
- (o) agree not to send this Prospectus, an Application Form or any other material relating to the Entitlement Offer and Shortfall Offer to any person in the United States or that is a person in the United States, or is acting for the account or benefit of a person in the United States; and
- (p) agree that if in the future you decide to sell or otherwise transfer your New Shares you will only do so in transactions where neither you nor any person acting on your behalf knows, or has reason to know, that the sale has been pre-arranged with, or that the purchaser is, in the United States or a person in the United States.

6.10 Brokerage

No brokerage or stamp duty is payable by Eligible Shareholders who accept their Entitlement.

However, the Company reserves the right to pay a commission of up to 6% (exclusive of GST) of amounts subscribed through any Australian financial services licensee in respect of any Applications lodged and accepted by the Company and bearing the stamp of the Australian financial services licensee. Payments will be made subject to the receipt of a proper tax invoice from the Australian financial services licensee.



The New Securities are considered highly speculative and carry no guarantee with respect to the payment of dividends or returns of capital. An investment in the Company is not risk free and the Directors strongly recommend that potential investors consult their professional advisers and consider the risks described below, together with information contained elsewhere in this Prospectus, before deciding whether to apply for New Shares.

The following list of risks ought not to be taken as exhaustive of all the risks faced by the Company or by Shareholders. The proposed future activities of the Company are subject to a number of risks and other factors which may impact its future performance. Some of these risks can be managed and mitigated by planning and the use of safeguards and appropriate controls. However, many of the risks are outside the control of the Company or the Directors and cannot be mitigated.

7.1 Risks specific to the Company

(a) Reinstatement to ASX Quotation

As at the date of this Prospectus the Company is suspended from ASX's Official List. The Company is seeking reinstatement to quotation on ASX's Official List, which is subject to ASX's discretion, and this Prospectus has partly been prepared for that purpose.

There is a risk that the Company may not be able to meet the requirements of the ASX for re-quotation of its Shares on ASX. Should this occur the Shares will not be able to be traded on the ASX until such time as those requirements can be met, if at all. Refer to Section 2.6 for further information in relation to the ASX reinstatement conditions.

(b) Commercialisation of technology

The research and development of wave energy technology such as the CETO Technology and the commercialisation of the results of that work can be considered a high-risk undertaking.

Investment in research and development companies cannot be assessed on the same fundamentals as trading and manufacturing companies. The Company is partly reliant on the success of its research and development of the CETO Technology as an economic method of power generation and the effective and successful commercialisation of the technology.

There is no guarantee that the research and development will produce a commercially effective, successful or competitive technology. The failure to achieve the objectives of the research and development process may prevent the Company commercialising the CETO Technology. The failure of the research and development process to generate a commercially effective, successful or competitive technology may have a materially adverse effect on the Company's performance and prospects.

(c) Key personnel

The Company's businesses are reliant on a number of key personnel and the loss of the services of one or more of these individuals could adversely affect the Company. In addition, The Company's plans for expansion will require it to recruit and train new employees. Although the Company expects to be able to attract and retain skilled and experienced personnel, there can be no assurance that it will be able to do so. The Company intends to mitigate these risks by entering into service contracts with any new employees and, where appropriate, may utilise existing and establish new employee incentive plans to encourage employees' loyalty to the Company.

(d) Future capital requirements

On completion of the Recapitalisation Proposal, the Directors believe that the Company will have sufficient funds to satisfy short and medium term working capital requirements. However, the development of the CETO Technology may require additional financing in the future in order for research, development and commercialisation of the technology to progress at a competitive rate.

The Company may also require additional financing in connection with the Garden Island Microgrid or the acquisition or development of projects not yet identified by the Company.

No assurances can be given that the Company will be able to raise this additional funding, which may be a combination of debt and/or equity financing. To meet such funding requirements, the Company may be required to undertake additional equity financing, which would be potentially dilutive to Shareholders depending on their participation in any equity raising. Debt financing, if available, may involve certain restrictions on operating activities or other financings.

The Company's ability to raise further equity or debt, and the terms of such transactions, will vary according to a number of factors, including the results achieved by the Company, stock market conditions, the overall risk appetite of investors along with access to credit markets and other funding sources.

An inability to obtain the required additional finance as and when required would delay progress on the development of the CETO Technology, which would have a material adverse effect on the Company's business, financial performance and prospects.

A similar inability to obtain required additional finance for Garden Island Microgrid or any other project that requires funding for its development would have a material adverse effect on the Company's business, financial performance and prospects.

(e) Renewal of DoD Contract

The Company has an agreement with the Commonwealth of Australia (represented by the DoD) expiring in May 2022 for the supply of electricity to HMAS Sitrling. The agreement provides for an option to extend by two further terms of five years each. However, there is a risk that the DoD may not extend the contract with the Company. If so, this may have an adverse impact on the Company's financial performance and/or financial position.



- (f) **Power Pricing Risk**
There is a risk that the revenue of the Company could be adversely affected by adverse movements in both retail and wholesale electricity prices. Furthermore, the Company's revenue could also be adversely affected by decreases in the use and price of fossil fuels (for example diesel and natural gas) to generate electricity.
- (g) **Competitors and new market entrants**
There is a risk that new entrants in the market which may disrupt Carnegie's business and the commercialisation of the CETO Technology. Existing competitors in the solar and wind industry as well as new competitors entering the industry, may develop superior and more efficient technology offerings or consolidate with other entities to deliver enhanced scale benefits. Such competitive pressures may materially and adversely impact the Company's ability to commercialise the CETO Technology.
- (h) **Profitability of operations**
The Company's cash flows will partly be derived from fees earned on development projects such as Garden Island Microgrid. If the conditions to operation at Garden Island Microgrid are not satisfied or delayed, then fees associated with Garden Island Microgrid will also be delayed or not realised.
The profitability of Garden Island Microgrid may be influenced by numerous factors and events that are beyond the control of the Company, and the Company cannot provide any assurance as to the cash flows that it will derived from Garden Island Microgrid. These factors may include fluctuations in weather patterns and other environmental changes affecting generation, failure or deterioration of equipment, performance and business stability of suppliers or contractors, curtailment or failure, labour issues or strikes and other operational issues.
If Garden Island Microgrid fails to generate revenues in line with expectations, this will have an adverse effect on the financial performance of the Company, and the Company may be required to raise additional funding.
- (i) **Protection and ownership of technology and intellectual property**
The business of Carnegie depends on its ability to commercially exploit its technology and intellectual property, including the CETO Technology. Carnegie relies on laws relating to trade secrets, copyright and trademarks to assist in protecting its proprietary rights. Although Carnegie presently has 71 granted patents, there is a risk that unauthorised use or copying of Carnegie's software, data or specialised technology will occur. In addition, there is a risk that the validity, ownership or authorised use of intellectual property relevant to Carnegie's business may be successfully challenged by third parties.
There is also a risk that Carnegie will be unable to register or otherwise protect new intellectual property it develops in the future, or which is developed on its behalf by contractors. In addition, competitors may be able to work around any of the intellectual property rights used by Carnegie, or independently develop technologies, that are not protected by Carnegie's intellectual property rights.
- (j) **Competition Risk**
The Company operates in a developing market. There may be competitors that enter the market and this may adversely affect the Company's future financial performance and profitability.
- (k) **Contract Risk**
The Company may operate through a series of contractual relationships with operators and sub-contractors. All contracts carry risks associated with the performance by the parties thereto of their obligations as to time and quality of work performed. Any disruption to services or supply may have an adverse effect on the financial performance of the Company's operations.
- (l) **Contractual Disputes and Litigation**
There is a risk that the Company may in the future have disputes with counterparties in respect of major contracts and that this may have an adverse impact on the Company's financial performance and/or financial position.
- (m) **Government Regulation**
It is possible that new specific laws may be introduced in Australia or overseas which may have a material adverse effect on the Company's business. The Company's business may be affected by new and changing government policies, including R&O tax rebate, taxation, royalties, environmental regulation, land access and economic regulation relating to the electricity and renewable energy industries and policies and legislation relating to renewable energy targets and renewable energy trading.
- (n) **Operating Risks**
The operations of the Company may be affected by various factors, including:
- (i) operational and technical difficulties;
 - (ii) difficulties in commissioning and operating plant and equipment;
 - (iii) mechanical or technical failures or plant breakdowns;
 - (iv) unanticipated engineering, design or technical problems;
 - (v) plant and equipment unavailability or shortages (including delays in delivery);
 - (vi) increases in the cost of consumables, spare parts, plant and equipment;
 - (vii) industrial and environmental accidents and hazards (including, by way of example, fires and explosions);
 - (viii) labour and industrial disputes;
 - (ix) transport disruptions; and
 - (x) extended interruptions due to inclement and hazardous weather conditions.
- These hazards and risks could result in damage to or loss of life, damage to or the destruction of production facilities and property, environmental damage and possible legal liability for any and all damage. One or a combination of these events and impacts could have a material adverse effect on the financial position, financial performance, cash flows and growth prospects of the Company. Whilst the Company has implemented a number of systems to guard against errors and industrial accidents, a serious accident or error could have long-term material adverse implications for the Company.

(o) **Delivery Risks**

Delivery of the Company's services under client contracts may be adversely impacted due to any of the following factors:

- (i) government regulation;
- (ii) equipment failure;
- (iii) equipment or manpower shortages;
- (iv) force majeure;
- (v) explosions or fires; and
- (vi) environmental hazards and risks,
- (vii) all of which could have a material adverse effect on the Company's financial position, financial performance, cash flows and growth prospects.

(p) **Historical and Other Creditor Claims**

Although, following effectuation of the DOCA, the creditor's claims lie against the Creditors' Trust rather than the Company, there remains a risk that creditors may pursue claims against the Company, even in the absence of legal rights to do so. If that occurs, the Directors will take the course of action they consider to be in the best interests of Shareholders.

(q) **Contractual Arrangements**

The Company is a party to a number of contracts, particularly customer contracts and contracts with its major suppliers. Failure by any party to a contract with the Company to comply with their obligations could have a material adverse effect on the financial position, financial performance, cash flows and growth prospects of the Company.

(r) **Key Relationship Breakdowns**

The Company relies upon its close and long-standing business relationships with a number of key suppliers, distributors and clients in order to maintain and grow its market share. The Company does not have in place formal written contracts with all of its key suppliers, distributors and clients. The deterioration of any such key relationships or a change in the circumstances or requirements of the key suppliers, distributors and/or clients, or market conditions generally, could therefore have significant operational and financial implications for The Company.

(s) **Industry Outlook**

The government policies for Australia's renewable energy industry are uncertain. This may reduce new investment in the renewable energy industry in Australia which could reduce the number of available new business prospects for The Company. Likewise, an expected fall in wholesale prices arising from increased generation output could also reduce the number of available new business prospects for the Company.

7.2 General risks

(a) **Economic risks**

General economic conditions, introduction of tax reform, new legislation, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's business activities and potential research and development programmes, as well as on their ability to fund those activities.

(b) **Insurance risks**

The Company intends to insure its operations (as required) in accordance with industry practice. However, in certain circumstances, such insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company affected.

(c) **Litigation risks**

The Company is exposed to possible litigation risks including, but not limited to, intellectual property claims. Further, the Company may be involved in disputes with other parties in the future, which may result in litigation. Any such claim or dispute if proven, may impact adversely on the Company's operations, financial performance and financial position. The Company is not currently engaged in any litigation.

(d) **Dependence on outside parties**

The Company may pursue a strategy that forms strategic business relationships with other organisations in relation to potential products. There can be no assurance that the Company will be able to attract such prospective organisations and to negotiate appropriate terms and conditions with these organisations or that any potential agreements with such organisations will be complied with.

(e) **Market conditions**

Share market conditions may affect the value of the Shares regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

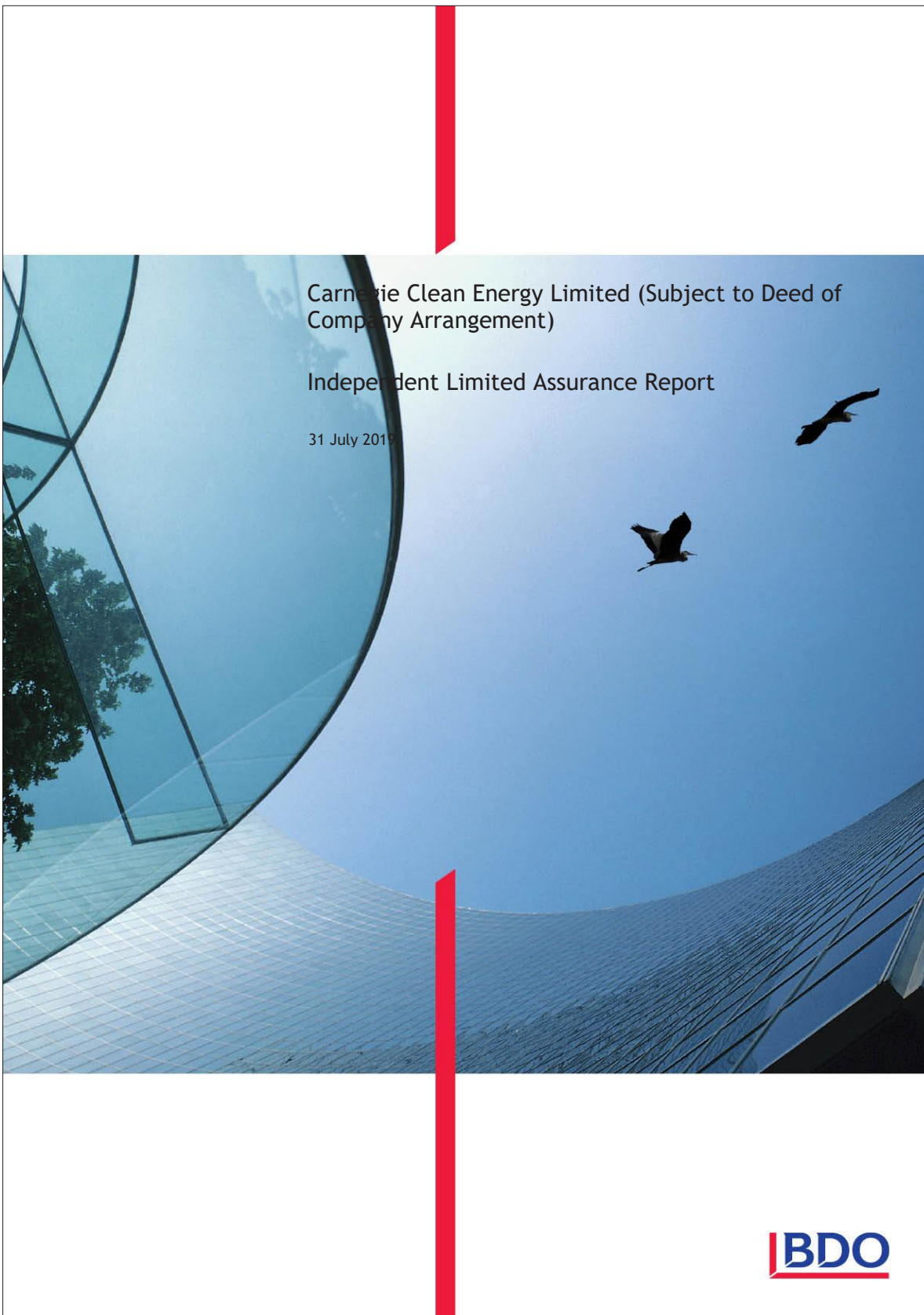
- (i) general economic outlook;
- (ii) introduction of tax reform or other new legislation;
- (iii) interest rates and inflation rates;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and
- (vi) terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and technology stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return to Shareholders arising from the transactions the subject of the Notice or otherwise.

7.3 Investment highly speculative

The above list of risks ought not to be taken as exhaustive of the risks faced by the Company or by prospective investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the New Securities. The New Securities carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Shares. Prospective investors should consider that the investment in the Company is highly speculative and should consult their professional advisers before deciding whether to apply for New Securities.

8 Financial Information



31 July 2019

The Directors
Carnegie Clean Energy Limited Limited and its controlled entities (Subject to Deed of Company Arrangement)
C/o
Administrators
Korda Mentha

Dear Directors

INDEPENDENT LIMITED ASSURANCE REPORT

1. Introduction

BDO Corporate Finance (WA) Pty Ltd ('BDO') has been engaged by Carnegie Clean Energy Limited and its controlled entities (Subject to Deed of Company Arrangement ('DOCA')) ('CCE' or 'Carnegie' or 'the Company' or 'the Group') to prepare this Independent Limited Assurance Report ('Report') in relation to certain financial information of CCE, for the offering of shares in CCE ('Offer'), for inclusion in a prospectus ('Prospectus'). Broadly, the Company is undertaking a capital raising of up to approximately \$11.52 million (before costs) ('Capital Raising'). The Capital Raising is subject to a minimum subscription level of \$5.5 million (before costs).

Expressions defined in the Prospectus have the same meaning in this Report. BDO Corporate Finance (WA) Pty Ltd ('BDO') holds an Australian Financial Services Licence (AFS Licence Number 316158).

This Report has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the Financial Information to which it relates for any purpose other than that for which it was prepared.

2. Scope

You have requested BDO to perform a limited assurance engagement in relation to the historical and pro forma historical financial information described below and disclosed in the Prospectus.

The historical and pro forma historical financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements

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BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 AFS Licence No 316158 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Corporate Finance (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

You have requested BDO to review the following historical financial information (together the ‘**Historical Financial Information**’) of CCE included in the Prospectus:

- the Statements of Profit or Loss and Other Comprehensive Income for the years ended 30 June 2017, 2018 and the six months ended 31 December 2017 and 2018; and
- the Statement of Financial Position as at 31 December 2018.

The Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the company’s adopted accounting policies. The Historical Financial Information has been extracted from the financial reports of CCE for the half years ended 31 December 2017 and 31 December 2018 (which were reviewed by Crowe Horwath in accordance with the relevant Australian Auditing Standards) and the years ended 30 June 2017 and 30 June 2018 (which were audited by Crowe Horwath in accordance with the Australian Auditing Standards). Crowe Horwath issued an unmodified review conclusion for the half years ended 31 December 2017 and 31 December 2018 and unmodified audit opinions on the financial reports for the years ended 30 June 2017 and 30 June 2018. Crowe Horwath did note an emphasis of matter in relation to Going Concern for the 30 June 2018 and 31 December 2018 periods.

Pro Forma Historical Financial Information

You have requested BDO to review the following pro forma historical financial information (the ‘**Pro Forma Historical Financial Information**’) of CCE:

- the pro forma historical Statement of Financial Position as at 31 December 2018.

The Pro Forma Historical Financial Information has been derived from the historical financial information of CCE, after adjusting for the effects of the subsequent events described in Section 6 of this Report and the pro forma adjustments described in Section 7 of this Report. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the events or transactions to which the pro forma adjustments relate, as described in Section 7 of this Report, as if those events or transactions had occurred as at the date of the historical financial information. Due to its nature, the Pro Forma Historical Financial Information does not represent the company’s actual or prospective financial position or financial performance.

The Pro Forma Historical Financial Information has been compiled by CCE to illustrate the impact of the events or transactions described in Section 6 and Section 7 of the Report on CCE’s financial position as at 31 December 2018. As part of this process, information about CCE’s financial position has been extracted by CCE from CCE’s financial statements for the half-year ended 31 December 2018.

3. Directors’ responsibility

The directors of CCE are responsible for the preparation and presentation of the Historical Financial Information and Pro Forma Historical Financial Information, including the selection and determination of pro forma adjustments made to the Historical Financial Information and included in the Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of Historical Financial Information and Pro Forma Historical Financial Information are free from material misstatement, whether due to fraud or error.

4. Our responsibility

Our responsibility is to express limited assurance conclusions on the Historical Financial Information and the Pro Forma Historical Financial Information. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the financial information.

5. Conclusion

Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information, as described in the Appendices to this Report, and comprising:

- the Statement of Profit or Loss and Other Comprehensive Income of CCE for the years ended 30 June 2017 and 2018 and the half-years ended 31 December 2017 and 2018; and
- the Statement of Financial Position of CCE as at 31 December 2018,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 2 of this Report.

Pro Forma Historical Financial information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information as described in the Appendices to this Report, and comprising:

- the pro forma historical Statement of Financial Position of CCE as at 31 December 2018,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 2 of this Report.

6. Subsequent Events

The pro-forma statement of financial position reflects the following events that have occurred/ will occur subsequent to the period ended 31 December 2018:

- the establishment of a creditors' trust, under which the Company's creditors will become beneficiaries of the trust in exchange for extinguishing their claims against the Company (other than certain creditors mentioned below), allowing the Company to exit administration (Creditors' Trust);
- the sale of all assets of Carnegie, other than the CETO Technology and the Garden Island Microgrid, the proceeds of which will also be paid into the Creditors' Trust;

- 50% of the 450 existing Convertible Notes on issue, each having a face value of \$10,000 (CCE Notes) and the bridging loan facility from HFM Investments Pty Ltd (a company associated with Non-Executive Director Mike Fitzpatrick) (HFM Bridge Loan), totalling approximately \$2,825,000, converting into Shares at \$0.00125 per Share, with each Share being issued with one free attaching Option exercisable at \$0.0015 per Option, expiring three years from the date of issue (with both the New Shares and Options being subject to voluntary escrow for six months from the date of issue);
- the remaining 50% of the CCE Notes and the HFM Bridge Loan, totalling approximately \$2,825,000, converting into a new class of Convertible Notes maturing 31 March 2021 with a coupon of 8% per annum payable in Shares at an issue price of the greater of the 90 day VWAP per Share as at the relevant Interest Payment Date or \$0.001 (Interest Shares), with such Convertible Notes restricted from conversion within the first 12 months of issue, following which the notes will be convertible at \$0.00125 per Share and having one free attaching option exercisable at \$0.0015 per share and expiring three years from issue (2021 Notes)
- the entry into a general security agreement in favour of the holders of the 2021 Notes to secure the amounts owing under the 2021 Notes against all of the Company's property from time to time;
- the Funding Loan from the Proponents converting into New Shares at an issue price of \$0.001 per Share, with each Share being issued with one free attaching Option exercisable at \$0.00125 per Option and expiring five years from the date of issue; and
- the 16 existing convertible notes on issue to the Australian Renewable Energy Agency (ARENA) maturing on 24 January 2024 with a face value of \$100,000, a conversion price of \$0.053 will lapse (ARENA Notes), DOCA.

Apart from the matters dealt with in this Report, and having regard to the scope of this Report and the information provided by the Directors, to the best of our knowledge and belief no other material transaction or event outside of the ordinary business of CCE not described above, has come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

7. Assumptions Adopted in Compiling the Pro-forma Statement of Financial Position

The pro forma historical Statement of Financial Position is shown in Appendix 2. This has been prepared based on the financial statements as at 31 December 2018, the subsequent events set out in Section 6, and the following transactions and events relating to the issue of Shares under the Prospectus:

- a non-renounceable pro rata entitlement issue of four (4) New Shares for every one (1) Share held by Eligible Shareholders on the Record Date at an issue price of \$0.001 per New Share to raise a minimum of \$5,500,000 (before costs) and up to \$11,525,810 (before costs) (being the Entitlement Offer under this Prospectus).
- Payment of up to \$1.4 million from the proceeds of the entitlement offer
- Offer are estimated to be \$234,500 (for the minimum raise) and \$275,000 (for the maximum raise) which are to be offset against the contributed equity; and

- Repayment of \$2 million of the 2021 Notes from the proceeds of the entitlement offer under the maximum raise.

8. Independence

BDO is a member of BDO International Ltd. BDO does not have any interest in the outcome of the Offer other than in connection with the preparation of this Report and participation in due diligence procedures, for which professional fees will be received.

9. Disclosures

This Report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to be a substitute for professional advice and potential investors should not make specific investment decisions in reliance on the information contained in this Report. Before acting or relying on any information, potential investors should consider whether it is appropriate for their objectives, financial situation or needs.

Without modifying our conclusions, we draw attention to Section 2 of this Report, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose.

BDO has consented to the inclusion of this Report in the Prospectus in the form and context in which it is included. At the date of this Report this consent has not been withdrawn. However, BDO has not authorised the issue of the Prospectus. Accordingly, BDO makes no representation regarding, and takes no responsibility for, any other statements or material in or omissions from the Prospectus.

Yours faithfully

BDO Corporate Finance (WA) Pty Ltd



Adam Myers

Director

APPENDIX 1

CARNEGIE CLEAN ENERGY LIMITED (Subject to Deed of Company Arrangement) CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| Statement of Comprehensive Income | Reviewed for the half-year ended 31-Dec-18 | Audited for the year ended 30-Jun-18 | Reviewed for the half-year ended 31-Dec-17 | Audited for the year ended 30-Jun-17 |
|---|--|--|--|--|
| Revenue | | | | |
| Sales revenue | 2,199,967 | 9,078,637 | 2,585,334 | 4,598,030 |
| Royalty income | - | - | - | 452,591 |
| Share of losses accounted for using the equity method | - | - | - | (579,081) |
| Adjustment to the fair value on the acquisition of the remaining interest in a former associate | - | 107,531 | - | - |
| Net loss on derivatives not designated as hedging instruments | - | (8,300) | - | - |
| Net gain on financial instruments at fair value through profit and loss | - | 428,669 | 328,669 | 250,343 |
| Net research and development grant received | - | 378,067 | - | - |
| Other income | 605,560 | 61,103 | 411,180 | 123,692 |
| Cost of sales | (3,197,906) | (11,584,605) | (4,447,318) | (5,980,924) |
| Gross profit | (392,379) | (1,538,898) | (1,122,135) | (1,135,349) |
| Expenses | | | | |
| Adjustment to fair value on the acquisition of the remaining interest in a former associate | - | - | - | (1,636,101) |
| Depreciation and amortisation expense | (180,067) | (1,566,877) | (751,113) | (1,401,120) |
| Occupancy expense | (408,262) | (623,748) | (490,018) | (692,833) |
| Consultancy expenses | (141,186) | (549,686) | (46,688) | (19,915) |
| Research expenses | (142,198) | (79,380) | (110,896) | (706,241) |
| Doubtful debt expense | (37,409) | (401,147) | (525,171) | (20,000) |
| Employee and directors' expenses | (2,742,459) | (5,880,425) | (2,947,585) | (5,256,158) |
| Fair value of additional shares and options issued | - | (1,783,158) | (1,783,158) | - |
| Employee share based payments | - | (3,352) | (3,352) | (131,583) |
| Finance costs | (572,735) | (1,056,700) | (370,294) | (678,928) |
| Company secretarial expenses | (30,000) | (63,000) | (33,000) | (96,000) |
| Administrative expenses | (1,186,212) | (2,372,949) | (1,183,079) | (2,538,676) |
| Impairment charge | (39,204,576) | (34,934,267) | - | - |
| Write-off of goodwill | - | (8,868,092) | - | - |
| Write-off of intangibles(other than goodwill) | - | (3,623,698) | - | - |
| Other expenses from ordinary activities | (1,270) | (4,319) | (763) | (69,734) |
| Loss from continuing operations before income tax | (45,038,753) | (63,349,694) | (9,367,252) | (14,382,638) |
| Income tax benefit/(expense) | - | - | 265,059 | - |
| Loss for the period from continuing operations | (45,038,753) | (63,349,694) | (9,102,193) | (14,382,638) |
| Exchange differences on translating foreign contracts | (7,384) | (43,358) | 23,778 | 5,488 |
| Total comprehensive loss for the year | (45,046,138) | (63,393,052) | (9,078,415) | (14,377,150) |

This consolidated statement of profit or loss and other comprehensive income shows the historical financial performance of Carnegie and is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4. Past performance is not a guide to future performance.

APPENDIX 2

CARNEGIE CLEAN ENERGY LIMITED (Subject to Deed of Company Arrangement)

PRO-FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | Carnegie | | Balance sheet after sub events | Pro-forma adjustments | Pro-forma adjustments Min | Pro-forma adjustments Max | Pro-forma after issue Min | Pro-forma after issue Max |
|--|-------|-----------------------------|----------------------|-----------------------------------|--------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | | Reviewed as at 31-Dec-18 | Subsequent events | | | | | | |
| Current Assets | | | | | | | | | |
| Cash and cash equivalents | 2 | 1,686,895 | (1,686,895) | - | 3,865,500 | 7,850,810 | 3,865,500 | 7,850,810 | |
| Trade and other receivables | | 3,302,409 | (3,302,409) | - | - | - | - | - | |
| Inventories | | 379,237 | (379,237) | - | - | - | - | - | |
| Other Assets | | 55,250 | (55,250) | - | - | - | - | - | |
| Other Assets classified as held for sale | | 741,853 | (741,853) | - | - | - | - | - | |
| Total Current Assets | | 6,165,644 | (6,165,644) | - | 3,865,500 | 7,850,810 | 3,865,500 | 7,850,810 | |
| Non-Current Assets | | | | | | | | | |
| Trade and other receivables | | 1,003,868 | (1,003,868) | - | - | - | - | - | |
| Available for sale financial assets | | 12,414 | (12,414) | - | - | - | - | - | |
| Property, plant & equipment | 3 | 5,755,191 | (877,226) | 4,877,965 | - | - | 4,877,965 | 4,877,965 | |
| Intangibles | | 15,000,000 | - | 15,000,000 | - | - | 15,000,000 | 15,000,000 | |
| Total Non-Current Assets | | 21,771,473 | (1,893,508) | 19,877,965 | - | - | 19,877,965 | 19,877,965 | |
| Total Assets | | 27,937,117 | (8,059,152) | 19,877,965 | 3,865,500 | 7,850,810 | 23,743,465 | 27,728,775 | |
| Current Liabilities | | | | | | | | | |
| Trade and other payables | | 5,823,643 | (5,823,643) | - | - | - | - | - | |
| Short term provisions | 4 | 874,724 | (857,280) | 17,444 | - | - | 17,444 | 17,444 | |
| Interest bearing liabilities | | 550,000 | (550,000) | - | - | - | - | - | |
| Total Current Liabilities | | 7,248,367 | (7,230,923) | 17,444 | - | - | 17,444 | 17,444 | |
| Non-Current Liabilities | | | | | | | | | |
| Long term provisions | 5 | 119,549 | (46,657) | 72,892 | - | - | 72,892 | 72,892 | |
| Long term borrowings | 6 | 4,389,987 | (3,087,906) | 1,302,081 | - | (921,827) | 1,302,081 | 380,254 | |
| Derivative liability | 7 | - | 13,508 | 13,508 | - | (9,563) | 13,508 | 3,945 | |
| Total Non-Current Liabilities | | 4,509,536 | (3,121,055) | 1,388,481 | - | (931,390) | 1,388,481 | 457,091 | |
| Total Liabilities | | 11,757,903 | (10,351,978) | 1,405,925 | - | (931,390) | 1,405,925 | 474,535 | |
| Net Assets | | 16,179,214 | 2,292,826 | 18,472,040 | 3,865,500 | 8,782,200 | 22,337,540 | 27,254,240 | |
| Equity | | | | | | | | | |
| Equity | 8 | 199,027,855 | 3,325,000 | 202,352,855 | 5,265,500 | 11,250,810 | 207,618,355 | 213,603,665 | |
| Convertible note equity | 9 | - | 1,509,411 | 1,509,411 | - | (1,068,610) | 1,509,411 | 440,801 | |
| Accumulated losses | 10 | (182,848,641) | (2,541,585) | (185,390,226) | (1,400,000) | (1,400,000) | (186,790,226) | (186,790,226) | |
| Total Equity | | 16,179,214 | 2,292,826 | 18,472,040 | 3,865,500 | 8,782,200 | 22,337,540 | 27,254,240 | |

The pro-forma statement of financial position after the Offer is as per the statement of financial position before the Offer adjusted for any subsequent events and the transactions relating to the issue of shares pursuant to this share offering. The statement of financial position is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4.



APPENDIX 3

CARNEGIE CLEAN ENERGY LIMITED (Subject to Deed of Company Arrangement)

HISTORICAL STATEMENTS OF CASHFLOWS

| Consolidated Statement of Cash Flows | Reviewed for the | Audited for the | Reviewed for the | Audited for the |
|---|--------------------|--------------------|--------------------|--------------------|
| | half year ended | year ended | half year ended | year ended |
| | 31-Dec-18 | 30-Jun-18 | 31-Dec-17 | 30-Jun-17 |
| Cash flows from operating activities: | | | | |
| Receipts from customers | 1,390,051 | 14,607,765 | 2,346,696 | 10,542,486 |
| Receipts from Royalties | - | - | - | 677,918 |
| Interest received | 14,085 | 130,067 | 108,931 | 141,994 |
| Interest paid | (572,735) | (502,048) | (327,247) | (265,704) |
| Payments to suppliers and employees | (9,256,626) | (25,783,089) | (11,996,421) | (25,230,105) |
| Receipts from R&D Tax rebate | - | 2,648,408 | - | 3,142,973 |
| Receipts from Government grant funding | - | 1,704,913 | - | 1,847,436 |
| Net cash flows from/(used in) operating activities | (8,425,225) | (7,193,984) | (9,868,041) | (9,143,002) |
| Cash flows from investing activities: | | | | |
| Payments for development of asset | (369,895) | (2,013,183) | (927,240) | (3,296,547) |
| Purchases of property, plant and equipment | (4,430) | (9,509,006) | (1,025,855) | (6,280,359) |
| Proceeds from disposal of assets | 126,958 | 760,741 | - | 818 |
| Payments for purchase of financial assets | - | - | - | 3,690,000 |
| Net proceeds from acquisition of subsidiaries | - | 807,274 | - | 264,313 |
| Receipt from R&D Tax rebate | 2,157,137 | - | 264,059 | - |
| Receipts from Government grant funding | 2,951,691 | - | 186,761 | - |
| Net cash flows from/(used in) investing activities | 4,861,461 | (9,954,174) | (1,502,275) | (5,621,775) |
| Cash flows from financing activities: | | | | |
| Net proceeds from issue of shares | - | 5,004,916 | (91,176) | 18,417,940 |
| Net proceeds from issue of convertible notes | - | - | - | 4,873,684 |
| Proceeds from borrowings | 1,108,380 | 4,423,305 | - | - |
| Repayment of borrowings | (1,400,000) | - | - | (527,762) |
| Net cash flows from financing activities | (291,620) | 9,428,221 | (91,176) | 22,763,862 |
| Net increase/(decrease) in cash held | (3,855,384) | (7,719,937) | (11,461,492) | 7,999,085 |
| Cash and cash equivalents at beginning of period | 5,615,766 | - | 16,202,143 | 8,200,500 |
| Effect of exchange rate fluctuations on cash held | (73,487) | - | 20,115 | 2,558 |
| Cash and cash equivalents at the end of the period | 1,686,895 | (7,719,937) | 4,760,766 | 16,202,143 |

The Historical Statement of Cash Flows shows the historical consolidated cash flows of Carnegie and are to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4.

APPENDIX 4

CARNEGIE CLEAN ENERGY LIMITED (Subject to Deed of Company Arrangement) NOTES TO AND FORMING PART OF THE HISTORICAL FINANCIAL INFORMATION

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the historical financial information included in this Report have been set out below.

a. Basis of preparation

The historical financial information has been prepared in accordance with the recognition and measurement, but not all the disclosure requirements of the Australian equivalents to International Financial Reporting Standards ('AIFRS'), other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

Going Concern

As at 31 December 2018, the Group's current liabilities exceeded its current assets by \$1,082,723 and the Group's recorded consolidated loss after tax was \$45,038,753 for the six months ended on that date (30 June 2018 consolidated loss after income tax of \$63,393,052). These conditions give rise to a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.

The ability of the Group to continue as a going concern is primarily dependent upon:

- Raising sufficient funds from a planned capital raising;
- Continued support from HFM Investments Pty Ltd through the provision of loan facilities;
- Being able to successfully renegotiate the conversion terms relating to the \$4.3m EMC Convertible

Notes debt due to mature on 11 January 2020.

At the date of these financial statements, the Group has:

- Commenced planning to raise capital in the short term via a new equity issue;
- Received a cash offer to purchase its remaining interest in the Northam Solar Farm;
- Received confirmation from HFM Investments Pty Ltd that they will not seek repayment of their unsecured loan before 31 March 2019 which is anticipated to be after the completion of the proposed capital raising;
- Held preliminary high-level discussions with the EMC Convertible Noteholders.

The Directors believe that at the date of signing the financial report there are reasonable grounds to believe that having regard to the matters set out above, the Group will continue as a going concern. However, should any of the matters detailed above not be successfully concluded, the Group may be unable to meet its debts as and when they fall due and realise its assets and settle its liabilities in the ordinary course of business at the amounts stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

NOTE 1.1: NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2018, except for the new policies resulting from the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments. As required by AASB 134, the nature and effect of these changes are disclosed below.

AASB 15 Revenue from Contracts with Customers

AASB 15 and its related amendments supersede AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations. It applies to all revenue arising from contracts with its customers and became effective for annual periods beginning on or after 1 January 2018. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. It requires revenue to be recognised when (or as) control of a good or service transfers to a customer at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

AASB 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires enhanced and extensive disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The Group adopted AASB 15 using the full retrospective method of adoption. The effect of adopting AASB 15 is set out below.

Overall impact

The Group's revenue comprises two main streams relating to the construction of solar and battery microgrid projects, being:

- Construction activities; and
- Operations and maintenance activities;

The Group undertook an analysis of the impact of the new revenue standard based on a review of the terms of its principal revenue streams with the focus being to understand whether the timing and amount of revenue recognised could differ under AASB 15.

Under AASB 111, revenue from construction activities was recognised by reference to the stage of completion of the contract activity at the end of the reporting period. The proportion of revenue recognised was based on the proportion of costs incurred compared to forecast total costs as the end of the reporting period, with revenue being recognised in full only when the performance obligation of project completion had been met.

Under AASB 118 revenue in respect to operations and maintenance activities was recognised over the period of the performance obligation specified in the contract.

For the Group's principal revenue stream, the nature and timing of satisfaction of the performance obligations, and, hence, the amount and timing of revenue recognised under AASB 15, is the same as that under AASB 111 and AASB 118.

As a result of the above, there were no changes to the Group's existing revenue recognition policy. In addition, there were no impacts on the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, consolidated statement of cashflows or earnings per share ('EPS').

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied AASB 9 retrospectively, with the initial application date of 1 January 2018 and has adjusted the comparative information for the period beginning 1 July 2017, where necessary. There were no material impacts on the comparative balances other than a change in classification of some receivables.

The effects of adopting AASB 9 are set out below.

(i) Classification and measurement

Under AASB 9, there is a change in the classification and measurement requirements relating to financial assets. Previously, there were four categories of financial assets: loans and receivables, fair value through profit or loss, held to maturity and available for sale. Under AASB 9, financial assets are either classified as amortised cost, fair value through profit or loss or fair value through other comprehensive income.

For debt instruments, the classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding.

Financial Assets

The Group has no significant financial assets held at fair value, nor did it have any in the prior period.

Financial Liabilities

The Group has no significant financial liabilities held at fair value through the profit or loss, nor did it have any in the prior period.

(ii) Impairment

The adoption of AASB 9 has changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Group to recognise an allowance for ECLs for financial assets not held at fair value through profit or loss.

As all of the Group's trade receivables and other current receivables which the Group measures at amortised cost are short term (i.e. less than 12 months), the change to a forward-looking ECL approach did not have a material impact on the amounts recognised in the financial statements.

NOTE 1.2: IMPAIRMENT OF NON-CURRENT ASSETS

The Group performs a review of non-current asset values at each reporting period and whenever events occur or changes in circumstances indicate that the carrying amount of an asset group may be impaired. Market conditions are monitored for indications of impairment for all of the Group's operating assets and where such indications are identified, a formal impairment assessment is performed.

The Group has identified the following indicators of impairment at 31 December 2018:

- the carrying amount of the net assets of the Group is greater than the Company's market capitalisation;
- announced proposed changes to the Federal research and development (R&D) tax incentive scheme;
- increased costs associated with the construction of the Garden Island Microgrid Project;
- decreasing cost of electricity to purchasers;
- decreasing value of Large-scale Generating Certificates; and
- delays in the Albany Wave Energy Project schedule

As a result the Group assessed the recoverable amounts of the following Cash-Generating Units ('CGU'):

- CETO 6 Unit technology;
- Garden Island Microgrid Project;
- Northam Solar Farm Joint Arrangement; and
- Lendlease Joint Arrangement

Impairment testing

At 31 December 2018 the Group has evaluated whether the recoverable amount of the respective CGU exceeds its carrying amount. The recoverable amount is determined to be the higher of its fair value less costs of disposal ("FVLCO") or its value in use ("VIU").

At 30 June 2018, the fair value of the CETO 6 Unit technology was determined by the Company engaging a suitably qualified independent consultant to prepare an independent valuation report. The approach adopted by the consultant was the relief of royalty method (RRM). The basic principle of the RRM is that if you do not own the intellectual property (IP), you would need to pay to licence it from the IP owner. By virtue of owning the asset, the IP owner is "relieved" from the responsibility of licencing the IP from a third party. The value is therefore benchmarked to the hypothetical cost to license such IP from a third party.

In assessing impairment of CETO 6 Unit technology for the half-year ended 31 December 2018, the Group has applied professional judgement in assessing materiality and using estimates, averages and computational shortcuts in accordance with paragraph 23 of AASB 136 - Impairment of Assets. The Group has determined an estimated value of the CETO 6 Unit technology with reference to the market capitalisation between 1 July 2018 and 31 December 2018.

For the Garden Island Microgrid Project ("GIMG") the Group has used a VIU model for the purpose of impairment testing. VIU is determined as the present value of the future cash flows expected to be derived from the GIMG.

For the Northam Solar Farm Joint Arrangement ("NSFJA") and the Lendlease Joint Arrangement ("LLJA") the Group has used the FVLCO.

Impairment charges recognised

The following information relates to impairment charges included in profit or loss:

| Segment/ CGU | Class of asset | Method | Dec 2018 \$ | Dec 2017 \$ |
|--------------------|---|----------------------|----------------|----------------|
| CETO Technology | Intangibles | FVLCOD (estimate) | 32,436,691 | - |
| GIMG | Property, Plant & Equipment | VIU | 2,173,907 | - |
| NSFPJA | Asset classified as held for sale | FVLCOD | 2,275,056 | - |
| LLJA | Asset classified as held for sale | FVLCOD | 2,318,922 | - |
| | | | 39,204,576 | - |

The inputs used in deriving the recoverable amount of each CGU is categorised in accordance within the following levels of the fair value hierarchy:

| CGU | Level 3(i) | Recoverable Amount \$ |
|------------------------|------------|--------------------------|
| CETO 6 Unit | 15,000,000 | 15,000,000 |
| GIMG | 4,800,000 | 4,800,000 |
| NSFPJA – held for sale | 741,853 | (2,275,056) |
| LLJA – held for sale | - | (2,318,922) |

- (i) Level 3 inputs are unobservable inputs used to measure fair value. In our calculations the inputs used are based on unobservable market data. Due to the unobservable market data the inputs are considered Level 3.

CETO Technology

The recoverable amount of the CET6 Unit technology was determined by application of paragraph 23 of AASB 136 - Impairment of Assets, using an estimate of FVLCOD based on the recent market capitalisation of the Group. Some of the factors the board considered in making this estimate include the current market conditions in which the technology is placed, a review of recent share price activity and consideration of the status of the current funding model for continued development.

GIMG

The recoverable amount of the GIMG was determined using a VIU model determined as the present value of the future cash flows expected to be derived. In preparing the cash flow model, some of the factors the board considered include, the current market conditions in which the GIMG will operate, consideration of expected power generation from simulation modelling, future tariffs earned and estimated future values of Large-scale Generating Certificates.

A key input into the recoverable amount of the CGU was the application of a discount rate to the independent cash flows. The board have applied a discount rate of 7.5% to reflect the current risk profile of the project.

A 2% increase or decrease to the discount rate used would result in a corresponding \$1 million increase or decrease in the impairment charge.

Another key input is the estimated revenue growth factor of 2.5%. This is based on the boards view of future inflationary forces.

HELD FOR SALE (NSFPJA and LLJA)

The recoverable amount of the interest in the NSFPJA and the LLJA was determined using a market-based approach, reflecting the value which could be expected to be realised through a sale.

In assessing the fair value of the held for sale assets, the board have taken into consideration discussions and information received from interested parties.

Inputs in determining the classification level within the fair value hierarchy are reassessed at each reporting date as part of the impairment process. The inputs used within calculations are assessed and discussed internally to determine the extent to which they can be compared to observable market information and classified accordingly.

| | Reviewed as at 31-Dec-18 | Pro-forma after Offer Min | Pro-forma after Offer Max |
|---|--------------------------------|---------------------------------|---------------------------------|
| NOTE 2. CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents | 1,686,895 | 3,865,500 | 7,850,810 |
| Reviewed balance of Carnegie at 31-Dec-18 | | 1,686,895 | 1,686,895 |
| <i>Subsequent events</i> | | | |
| Transfer under the DOCA | | (1,686,895) | (1,686,895) |
| <i>Pro-forma adjustments:</i> | | | |
| Proceeds from shares issued under this Prospectus | | 5,500,000 | 11,525,810 |
| Capital raising costs | | (234,500) | (275,000) |
| | | 5,265,500 | 11,250,810 |
| <i>Less the follow repayments:</i> | | | |
| Payment to Creditors Trust | | (1,400,000) | (1,400,000) |
| Loans and Borrowings | | - | (2,000,000) |
| Pro-forma Balance | | 3,865,500 | 7,850,810 |

| | Reviewed as at 31-Dec-18 | Pro-forma after Offer Min | Pro-forma after Offer Max |
|--|--------------------------------|---------------------------------|---------------------------------|
| NOTE 3. PROPERTY, PLANT & EQUIPMENT | | | |
| Property, plant & equipment | 5,755,191 | 4,877,965 | 4,877,965 |
| Balance as at 31 December 2018 | | 5,755,191 | 5,755,191 |
| <i>Subsequent Event</i> | | | |
| Transfer under the DOCA of specified equipment | | (877,226) | (877,226) |
| Pro-forma Balance | | 4,877,965 | 4,877,965 |

| | Reviewed as at 31-Dec-18 | Pro-forma after Offer Min | Pro-forma after Offer Max |
|--|--------------------------------|---------------------------------|---------------------------------|
| NOTE 4. SHORT TERM PROVISIONS | | | |
| Short term provisions | 874,724 | 17,444 | 17,444 |
| Balance as at 31 December 2018 | | 874,724 | 874,724 |
| <i>Subsequent Event</i> | | | |
| Settlement of liabilities under the DOCA | | (857,280) | (857,280) |
| Pro-forma Balance | | 17,444 | 17,444 |

The remaining balance represents the leave liabilities to be retained by the Company following the DOCA

| | Reviewed as at 31-Dec-18 | Pro-forma after Offer Min | Pro-forma after Offer Max |
|--|--------------------------------|---------------------------------|---------------------------------|
| NOTE 5. LONG TERM PROVISIONS | | | |
| Long term provisions | 119,549 | 72,892 | 72,892 |
| <i>Balance as at 31 December 2018</i> | | 119,549 | 119,549 |
| <i>Subsequent Event</i> | | | |
| Settlement of liabilities under the DOCA | | (46,657) | (46,657) |
| Pro-forma Balance | | 72,892 | 72,892 |

The remaining balance represents the long service leave liabilities to be retained by the Company following the DOCA

| | Reviewed as at 31-Dec-18 | Pro-forma after Offer Min | Pro-forma after Offer Max |
|---|--------------------------------|---------------------------------|---------------------------------|
| NOTE 6. LOANS AND BORROWINGS | | | |
| Long term borrowings | 4,389,987 | 1,302,081 | 380,254 |
| <i>Balance as at 31 December 2018</i> | | 4,389,987 | 4,389,987 |
| <i>Subsequent Event</i> | | | |
| Increase in borrowings post 31 December 2018 | | 685,013 | 685,013 |
| Pro-forma adjustments | | | |
| Share repayments | | (2,825,000) | (2,825,000) |
| Extinguishment of existing convertible note | | (2,250,000) | (2,250,000) |
| Issue of 2021 Convertible notes (Liability component) to extinguish previous debt | | 1,302,081 | 1,302,081 |
| Repayment of part of 2021 Convertible note with proceeds of the Entitlement offer | | - | (921,827) |
| Pro-forma Balance | | 1,302,081 | 380,254 |

The 2012 Notes have been valued in accordance with AASB 9 Financial Instruments. The 2021 Notes have been bifurcated into three elements being the derivative value relating to the conversion of the interest, the attaching options and the liability element. The attaching options have been valued using the Black Scholes model and the interest conversion using a Monte Carlo model which takes into account the conversion terms whereby the shares are issued at the greater of the 90 day VWAP or \$0.001.

The key inputs to both models are as follows

- | | | |
|-------|------------------------|---|
| (i) | Underlying Share price | \$0.001 |
| (ii) | Volatility | 100% |
| (iii) | Risk Free Rate | 0.98% |
| (iv) | Time to expiry | 19 Months (Interest Shares) 4.58 Years (attaching options) |

The resulting values are as follow:

Convertible note liability \$1,302,081

Interest Shares \$13,508

Attaching options (equity element) \$1,509,411

| | Reviewed as at 31-Dec-18 | Pro-forma after Offer Min | Pro-forma after Offer Max |
|---|--------------------------------|---------------------------------|---------------------------------|
| NOTE 7.DERIVATIVE LIABILITY | | | |
| Derivative liability | - | (13,508) | (3,945) |
| <i>Balance as at 31 December 2018</i> | | - | - |
| Pro-forma cash repayments | | | |
| Issue of 2021 Convertible Note (derivative element) | | (13,508) | (13,508) |
| Repayment of part of 2021 Convertible note with proceeds of the Entitlement offer | | - | 9,563 |
| Pro-forma Balance | | (13,508) | (3,945) |

| | Reviewed as at 31-Dec-18 | Pro-forma after Offer Min | Pro-forma after Offer Max |
|---|---------------------------------|---------------------------------|---------------------------------|
| NOTE 8. CONTRIBUTED EQUITY | | | |
| Contributed equity | 199,027,855 | 207,618,355 | 213,603,665 |
| | Number of shares Min | Number of shares Max | \$ |
| Fully paid ordinary share capital of Carnegie at 31 December 2018 | 2,881,452,450 | 2,881,452,450 | 199,027,855 |
| | 2,881,452,450 | 2,881,452,450 | 199,027,855 |
| Subsequent events | | | |
| Conversion of 50% of existing convertible notes to shares | 1,800,000,000 | 1,800,000,000 | 2,250,000 |
| Conversion of HFM debt to shares | 460,000,000 | 460,000,000 | 575,000 |
| Conversion of Loan funding | 500,000,000 | 500,000,000 | 500,000 |
| Pro-forma adjustments: | | | |
| Shares issued under the entitlement offer | 5,500,000,000 | 11,525,809,800 | 5,500,000 |
| Capital raising costs | - | - | (234,500) |
| | 8,260,000,000 | 14,285,809,800 | 8,590,500 |
| Pro-forma Balance | 11,141,452,450 | 17,167,262,250 | 207,618,355 |
| | | | 213,603,665 |

| | Reviewed as at 31-Dec-18 | Pro-forma after Offer Min | Pro-forma after Offer Max |
|---|--------------------------------|---------------------------------|---------------------------------|
| NOTE 9. CONVERTIBLE NOTE EQUITY | | | |
| Convertible note equity | - | (1,509,411) | (440,801) |
| <i>Balance as at 31 December 2018</i> | | - | - |
| Pro-forma adjustments | | | |
| Issue of 2021 Convertible Note (equity element) | | (1,509,411) | (1,509,411) |
| Repayment of part of 2021 Convertible note with proceeds of the Entitlement offer | | - | 1,068,610 |
| Pro-forma Balance | | (1,509,411) | (440,801) |

| | Reviewed as at 31-Dec-18 \$'000 | Pro Forma after Offer Min \$'000 | Pro Forma after Offer Max \$'000 |
|---------------------------------------|---------------------------------------|---|---|
| NOTE 10. ACCUMULATED LOSSES | | | |
| Accumulated Losses | (182,848,641) | (186,790,226) | (186,790,226) |
| <i>Balance as at 31 December 2018</i> | | (182,848,641) | (182,848,641) |
| <i>Subsequent Events</i> | | | |
| Loss on effectuation of DOCA | | (2,541,585) | (2,541,585) |
| <i>Pro-forma adjustments:</i> | | | |
| Payment to creditors trust | | (1,400,000) | (1,400,000) |
| Pro-forma Balance | | (186,790,226) | (186,790,226) |

NOTE 11: RELATED PARTY DISCLOSURES

Transactions with Related Parties and Directors Interests are disclosed in the Prospectus.

NOTE 12: COMMITMENTS AND CONTINGENCIES

At the date of the report no material commitments or contingent liabilities exist that we are aware of, other than those disclosed in the Prospectus.



9.1 Deed of Company Arrangement and Creditors Trust Deed

On 13 May 2019, the Company entered into:

- (a) the DOCA with Mooney & Partners Pty Ltd, Asymmetric Credit Partners Pty Ltd and the Administrators; and
- (b) a trust deed with the Deed Administrators (**Creditors' Trust Deed**) establishing a creditors' trust for the benefit of creditors. The Deed Administrators are the trustees of the Creditor's Trust (**Trustees**).

A summary of the terms of the DOCA and Creditors' Trust Deed is detailed in Section 2.3.

9.2 Convertible Note Facility Agreements

The Company is proposing to enter into convertible note facility agreements (**Convertible Note Facility Agreements**) with HFM and the CCE Noteholders. A summary of the material terms of the Convertible Note Facility Agreements is as follows:

- (a) the Lenders makes available to the Company a convertible note facility in an aggregate amount equal to the commitment, being \$2,825,000 for both HFM and CCE Noteholders and subscribes for the 2021 Notes. The commitment amount will be utilised in satisfaction of 50% of the debt owing to HFM and the CCE Noteholders;
- (b) each 2021 Note will have a face value of A\$25,000;
- (c) each 2021 Note will convert into Shares at \$0.00125 per Share, with each Share being issued with one free attaching Option exercisable at \$0.0015 per Option, expiring three years from the date of issue (with both the Shares and Options being subject to voluntary escrow for six months from the date of issue);
- (d) the Company shall repay the 2021 Notes on 31 March 2021 (**Repayment Date**);
- (e) the Company must pay interest on the 2021 Notes at a rate of 8% per annum (**Coupon Rate**), with an issue price of the greater of \$0.001 or the 90 day VWAP calculated prior to the relevant interest payment date, being the date that is one year from the date of issue of the 2021 Notes, each of 31 March, 30 June, 30 September and 31 December thereafter and on 31 March 2021 (**Interest Payment Dates**);
- (f) the Lenders may elect to convert all or part of the 2021 Notes and the accrued interest to Shares any time between one year after the 2021 Notes is issued and prior to the Repayment Date, by providing notice to the Company; and
- (g) if at any time after the date of the Convertible Note Facility Agreements there occurs any reconstruction of the issued capital of the Company then the entitlement of the Lenders to convert the 2021 Notes and any amount of interest owing, then unconverted, shall be reconstructed in a manner that is consistent with the ASX Listing Rules and in the same proportion and manner as any reconstruction of the issued capital of the issue.

The terms and conditions of the Options to be issued following conversion of the 2021 Notes are as follows:

- (a) **Entitlement**
Each Option entitles the holder to subscribe for one Share upon the exercise of the Option.
- (b) **Exercise Price and Expiry Date**
The Options have an exercise price of \$0.0015 per Option (**2021 Option Exercise Price**) and an expiry date 3 years following the date of issue (**2021 Option Expiry Date**).
A Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (c) **Exercise Period**
The Options are exercisable at any time on or prior to the Expiry Date.
- (d) **Quotation of the Options**
The Company will not apply for quotation of the Options on ASX.
- (e) **Notice of Exercise**
The Options may be exercised by notice in writing to the Company in the manner specified on the Option certificate (**2021 Option Notice of Exercise**) and payment of the Exercise Price for each Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.
Any Notice of Exercise of a Option received by the Company will be deemed to be a notice of the exercise of that Option as at the date of receipt.
- (f) **Lodgement Instructions**
Cheques shall be in Australian currency made payable to the Company and crossed "Not Negotiable". The application for Shares on exercise of the Options with the appropriate remittance should be lodged at the Company's share registry.
- (g) **Shares Issued on Exercise**
Shares issued on exercise of the Options rank equally with the then issued shares of the Company.
- (h) **Timing of Issue of Shares and Quotation of Shares on Exercise**
Within 5 Business Days after the later of the following:
 - (i) receipt of a Notice of Exercise given in accordance with these terms and conditions and payment of the applicable Exercise Price for each Option being exercised; and
 - (ii) when excluded information in respect to the Company (as defined in section 708A(7) of the Corporations Act) (if any) ceases to be excluded information. If there is no such information the relevant date will be the date of receipt of a Notice of Exercise as detailed in paragraph (e) above,the Company will:

- (iii) allot and issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (iv) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (v) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If, for any reason, a notice delivered under paragraph (e) is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(i) **Participation in New Issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 4 business days after the issue is announced. This will give the holders of Options the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.

(j) **Adjustment for Bonus Issues of Shares**

If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment):

- (i) the number of Shares which must be issued on the exercise of a Option will be increased by the number of Shares which the Option holder would have received if the Option holder had exercised the Option before the record date for the bonus issue; and
- (ii) no change will be made to the Exercise Price.

(k) **Adjustment for Entitlement Issue**

If the Company makes an issue of Shares pro rata to existing shareholders (other than as a bonus issue, to which paragraph (j) will apply) there will be no adjustment of the Exercise Price of an Option or the number of Shares over which the Options are exercisable.

(l) **Adjustment for Reorganisation**

If there is any reorganisation of the issued share capital of the Company, the rights of the Option holders will be varied in accordance with the Listing Rules.

(m) **Transferability**

Unless otherwise determined by the Board, the Options are non-transferable.

9.3 General Security Deed

Pursuant to the terms of the DOCA, the Company will enter into GSAs with the CCE Noteholders and HFM. Under the terms of the proposed GSAs:

- (a) the Lenders will be granted a security interest over all present and after acquired property of the Company; and
- (b) the Company will utilise its best endeavours to seek consent from the DoD to obtain a valid charge over the Garden Island Microgrid; and
- (c) the GSA will be granted over all of the assets and undertakings of the Company, save that security over the GIMG asset will only apply following the grant of consent by the D but at all times apply to any proceeds from the GIMG asset.

9.4 HFM Amendment Letter

The Company and HFM Investments Pty Ltd is proposing to execute a deed the loan agreement conversion letter with HFM (**HFM Amendment Letter**) pursuant to which it was agreed that A\$575,000, being 50% of A\$1,150,000 of the Loan shall be converted into Shares (each with a free attaching Option). The key terms of the HFM Amendment Letter are as follows:

- (a) each Share will have a conversion price of A\$0.00125 and have 1 free attaching Option exercisable at A\$0.0015 per Share and expiring 3 years from issue, with each of the Shares and Options being subject to voluntary escrow for 6 months from issue;
- (b) Shares and Options shall be issued upon the satisfaction of the following conditions:
 - (i) the Board being satisfied that:
 - (A) the Minimum Subscription under the Entitlement Offer has been raised; and
 - (B) all conditions imposed by the ASX (refer to Section 2.4) other than effectuation of the DOCA can be met; and
 - (ii) any ASX court, Shareholder or other regulatory approval is obtained for the issue of the Shares and the Options.

9.5 Deed of Amendment and Conversion

Asymmetric Credit Partners Pty Ltd and the CCE Noteholders is proposing to enter into a deed of amendment and conversion to amend the Convertible Note Trust Deed, to effect the conversion of 50% of the CCE Notes issued under the Convertible Note Trust Deed on the terms contained in the DOCA (**Deed of Amendment and Conversion**). Under the terms of the Deed of Amendment and Conversion:



- (a) 50% of the CCE Notes will convert at a price per Share of A\$0.00125, with each Share issued having one free attaching Option exercisable at A\$0.0015 per Share and expiring 3 years from issue and with the shares and options being subject to voluntary escrow for a period of 6 months;
- (b) upon conversion, there is full satisfaction and discharge of the outstanding amount owing to each CCE Noteholder in respect to the number of CCE Notes converted;
- (c) the Deed of Amendment and Conversion is conditional upon:
 - (i) the Board being satisfied that:
 - (A) the Minimum Subscription under the Entitlement Offer has been raised; and
 - (B) all conditions imposed by the ASX (refer to Section 2.4) other than effectuation of the DOCA can be met; and
 - (ii) any ASX court, Shareholder or other regulatory approval is obtained for the issue of the Shares and the Options.

9.6 ARENA Funding Agreements and Convertible Note Deed

On 1 August 2016, the Company and ARENA entered into a convertible notes deed (**ARENA Convertible Note Deed**) and a funding agreement (**GIMG Funding Agreement**) relating to GIMG.

Under the terms of the ARENA Convertible Note Deed, ARENA holds Convertible Notes with a face value of A\$1,600,000 in respect of funding provided to the Company under the GIMG Funding Agreement (**ARENA Notes**).

Under the terms of the ARENA Convertible Note Deed, ARENA is entitled to lapse the outstanding notes or convert them to shares in the Company. The notes do not bear interest. An event of default is currently in effect under the terms of the ARENA Convertible Note Deed and default interest is accruing on any overdue amounts at a rate of 5% per annum.

ARENA did not take any action to enforce the ARENA Convertible Note Deed or GIMG Funding Agreement and on 19 July 2019 a lapse notice in respect to the ARENA Notes was provided. Under the terms of the lapse notice to the Company, ARENA waived its rights to recoup the amount owing under the GIMG Funding Agreement.

In addition, on 29 June 2014, the Company and ARENA entered into a funding agreement relating to the CETO 6 Unit. The Company will not be entitled to ongoing funding support, as it anticipates that the funding agreement will be terminated by mutual agreement.

9.7 Research and Development Agreement

On 30 July 2018, the Company and ENEL Green Power S.P.A. (**ENEL Green**) entered into a research and development agreement (**R&D Agreement**) pursuant to which ENEL Green agreed to invest funds into Carnegie for the research, development and testing of the CETO Technology and the Company agreed to (amongst other matters) provide ENEL Green with information, reports and knowledge regarding the CETO Technology and utilise best endeavours to grant ENEL Green a first right to invest in all other projects related to the CETO Technology.

As at the date of this Agreement, the R&D Agreement has been mutually suspended until such time as the Recapitalisation Proposal is complete and the DOCA effectuated.

9.8 Executive Service Agreement

The Company has entered into an executive services agreement with Mr Jonathan Fievez on 27 September 2018 in respect of his employment as the CEO of the Company. The principal terms of the executive services agreement are as follows:

- (a) Mr Fievez receives a base salary of \$250,000 per annum, excluding mandatory superannuation contributions;
- (b) a cash bonus of up to 30% of the annual gross salary may be payable annually at the discretion of the Directors.
- (c) on 10 October 2018, Mr Fievez received 10 million Options exercisable at 1.6 cents per share on or before 10 October 2021;
- (d) express provisions protecting the Company's confidential information and intellectual property;
- (e) Mr Fievez may terminate the agreement by giving 3 months' notice in writing to the Company; and
- (f) the Company may terminate the agreement (without cause) by giving Mr Fievez 3 months' notice in writing (or make payment in lieu of notice), unless the Company is terminating as a result of serious misconduct (or other similar grounds) by Mr Fievez, in which case no notice is required.

9.9 Non-Executive Director Appointments

The Company has entered into deeds of variation to non-executive director appointment letters with each of Messrs Terry Stinson, Mike Fitzpatrick and Grant Mooney and a non-executive director appointment letter with Mr Anthony Shields. Messrs Fitzpatrick, Mooney and Shields will each receive an annual remuneration of \$40,000 (exclusive of mandatory superannuation contributions and GST) while Mr Stinson (Chairman) shall receive \$60,000 per annum (exclusive of mandatory superannuation contributions and GST). The changes to the remuneration of the existing Directors will take effect on and from effectuation of the DOCA.

Their appointment shall cease if:

- (a) the non-executive Director resigns;
- (b) at the close of any general meeting of Shareholders at which a resolution of their re-election is not approved; and
- (c) the non-executive Director is removed as a director in accordance with the Corporations Act or the Constitution.

9.10 Company Secretarial Appointment

The Company has entered into an agreement for the provision of Company secretarial services by Mooney & Partners Pty Ltd, a company associated with director Mr Grant Mooney. The agreement provides for the provision of Company Secretarial Services to the Company for \$48,000 per annum plus statutory superannuation. Both Mooney and the Company can terminate the agreement by giving 3 months' notice to either party.

9.11 Deeds of Indemnity, Insurance and Access

The Company has entered into standard deeds of indemnity, insurance and access with each of the Directors and Proposed Directors (**Deeds of Indemnity**). Pursuant to the Deeds of Indemnity, the Company will indemnify the Directors and Proposed

Directors to the extent permitted by the Corporations Act against any liability arising as a result of the officer acting as an officer of the Company. The Company is also required to maintain insurance policies for the benefit of the Directors and Proposed Directors and also allow the Directors and Proposed Directors to inspect Board papers in certain circumstances.

Where the Company is required by the Corporations Act, or is otherwise required by law, to seek the approval of Shareholders to the terms of, or the Company's entry into the Deeds of Indemnity, the provisions of the Deeds of Indemnity which would contravene the Corporations Act or other law, but for such approval, will not become operative until such time as such Shareholder approval has been obtained.

10 Rights attaching to New Securities



10.1 Rights attaching to New Shares

A summary of the rights attaching to Shares is detailed below. The Shares issued pursuant to the exercise of the New Shares will rank *pari passu* in all respects with existing Shares. This summary is qualified by the full terms of Company's Constitution (a full copy of the Constitution is available from Company on request free of charge) and does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of Shareholders. These rights and liabilities can involve complex questions of law arising from an interaction of Constitution with statutory and common law requirements. For a Shareholder to obtain a definitive assessment of the rights and liabilities which attach to shares in any specific circumstances, the Shareholder should seek legal advice.

The following is a summary of the more significant rights and liabilities attaching to Shares to be issued pursuant to this Prospectus. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

Full details of the rights and liabilities attaching to Shares are detailed in the Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

(a) General meetings

Shareholders are entitled to be present in person, or by proxy or attorney to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with the Corporations Act.

(b) Voting rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of Shareholders or classes of shareholders:

- (i) each shareholder entitled to vote may vote in person or by proxy or attorney;
- (ii) on a show of hands, every person present who is a shareholder or a representative of a shareholder has one vote in respect of each share carrying the right to vote; and
- (iii) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for each share held, but in respect of partly paid shares shall have a fraction of a vote equivalent to the proportion which the amount paid up bears to the total issue price for the share.

(c) Dividend rights

The Directors alone may declare a dividend to be paid to Shareholders. The dividend is payable at a time determined in the directors' discretion. No dividend may be declared or paid except as allowed by the Corporations Act. No interest is payable in respect of unpaid dividends. The Directors may set aside the Company's profit any amount that they consider appropriate. This amount may be used in any way that profits can be used, and can be invested or used in the Company's business in the interim.

(d) Winding-up

If the Company is wound up and a surplus remains, such surplus must be distributed to the Shareholders in proportion to the number of Shares held by them, irrespective of the amounts paid up on the Shares.

A Shareholders who is in arrears in payment of a call on a Share, but whose Shares has not been forfeited, is not entitled to participate in the distribution on the basis of holding that Share until the amount owing in respect of the call has been fully paid and satisfied.

(e) Shareholder liability

As the Shares to be issued under the Offers contained in this Prospectus are fully paid shares, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

(f) Transfer of Shares

Generally, Shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act and the Listing Rules.

(g) Variation of rights

Pursuant to Section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of Shareholders vary or abrogate the rights attaching to Shares.

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up, may be varied or abrogated with the consent in writing of the holders of three quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.



(h) **Alteration of Constitution**

The Constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. In addition, at least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

10.2 Rights Attaching to Lender Options

(a) **Entitlement**

Each New Option entitles the holder to subscribe for one Share upon the exercise of the New Option.

(b) **Exercise Price and Expiry Date**

The New Options have an exercise price of \$0.0015 per New Option (**Lender Option Exercise Price**) and an expiry date 3 years following the date of issue (**Lender Option Expiry Date**).

A New Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(c) **Exercise Period**

The New Options are exercisable at any time on or prior to the Expiry Date.

(d) **Quotation of the New Options**

The Company will not apply for quotation of the New Options on ASX.

(e) **Notice of Exercise**

The New Options may be exercised by notice in writing to the Company in the manner specified on the New Option certificate (**Lender Option Notice of Exercise**) and payment of the Exercise Price for each New Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

Any Notice of Exercise of a New Option received by the Company will be deemed to be a notice of the exercise of that New Option as at the date of receipt.

(f) **Lodgement Instructions**

Cheques shall be in Australian currency made payable to the Company and crossed "Not Negotiable". The application for Shares on exercise of the New Options with the appropriate remittance should be lodged at the Company's share registry.

(g) **Shares Issued on Exercise**

Shares issued on exercise of the New Options rank equally with the then issued shares of the Company.

(h) **Timing of the Issue of Shares on Exercise and Quotation**

Within 15 business days of a Notice of Exercise being given in accordance with these terms and conditions and payment of the Exercise Price for each New Option being exercised, the Company will:

- (i) issue the Shares pursuant to the exercise of the New Options; and
- (ii) apply for official quotation on ASX of Shares issued pursuant to the exercise of the New Options.

(i) **Participation in New Issues**

There are no participation rights or entitlements inherent in the New Options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the New Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 4 business days after the issue is announced. This will give the holders of New Options the opportunity to exercise their New Options prior to the date for determining entitlements to participate in any such issue.

(j) **Adjustment for Bonus Issues of Shares**

If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment):

- (i) the number of Shares which must be issued on the exercise of a New Option will be increased by the number of Shares which the New Option holder would have received if the New Option holder had exercised the New Option before the record date for the bonus issue; and
- (ii) no change will be made to the Exercise Price.

(k) **Adjustment for Entitlement Issue**

If the Company makes an issue of Shares pro rata to existing shareholders (other than as a bonus issue, to which paragraph (j) will apply) there will be no adjustment of the Exercise Price of a New Option or the number of Shares over which the New Options are exercisable.

(l) **Adjustment for Reorganisation**

If there is any reorganisation of the issued share capital of the Company, the rights of the New Option holders will be varied in accordance with the Listing Rules.

(m) **Transferability**

Unless otherwise determined by the Board, the New Options are non-transferable.

10.3 Rights Attaching to Funding Options

(a) **Entitlement**

Each New Option entitles the holder to subscribe for one Share upon the exercise of the New Option.

(b) **Exercise Price and Expiry Date**

The New Options have an exercise price of \$0.00125 per New Option (**Funding Option Exercise Price**) and an expiry date 5 years following the date of issue (**Funding Option Expiry Date**).

A New Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(c) **Exercise Period**

The New Options are exercisable at any time on or prior to the Expiry Date.

- (d) **Quotation of the New Options**
The Company will not apply for quotation of the New Options on ASX.
- (e) **Notice of Exercise**
The New Options may be exercised by notice in writing to the Company in the manner specified on the New Option certificate (**Funding Option Notice of Exercise**) and payment of the Exercise Price for each New Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company. Any Notice of Exercise of a New Option received by the Company will be deemed to be a notice of the exercise of that New Option as at the date of receipt.
- (f) **Lodgement Instructions**
Cheques shall be in Australian currency made payable to the Company and crossed "Not Negotiable". The application for Shares on exercise of the New Options with the appropriate remittance should be lodged at the Company's share registry.
- (g) **Shares Issued on Exercise**
Shares issued on exercise of the New Options rank equally with the then issued shares of the Company.
- (h) **Timing of the Issue of Shares on Exercise and Quotation**
Within 15 business days of a Notice of Exercise being given in accordance with these terms and conditions and payment of the Exercise Price for each New Option being exercised, the Company will:
- (i) issue the Shares pursuant to the exercise of the New Options; and
 - (ii) apply for official quotation on ASX of Shares issued pursuant to the exercise of the New Options.
- (i) **Participation in New Issues**
There are no participation rights or entitlements inherent in the New Options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the New Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 4 business days after the issue is announced. This will give the holders of New Options the opportunity to exercise their New Options prior to the date for determining entitlements to participate in any such issue.
- (j) **Adjustment for Bonus Issues of Shares**
If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment):
- (i) the number of Shares which must be issued on the exercise of a New Option will be increased by the number of Shares which the New Option holder would have received if the New Option holder had exercised the New Option before the record date for the bonus issue; and
 - (ii) no change will be made to the Exercise Price.
- (k) **Adjustment for Entitlement Issue**
If the Company makes an issue of Shares pro rata to existing shareholders (other than as a bonus issue, to which paragraph (j) will apply) there will be no adjustment of the Exercise Price of a New Option or the number of Shares over which the New Options are exercisable.
- (l) **Adjustment for Reorganisation**
If there is any reorganisation of the issued share capital of the Company, the rights of the New Option holders will be varied in accordance with the Listing Rules.
- (m) **Transferability**
Unless otherwise determined by the Board, the New Options are non-transferable.

10.4 Terms and Conditions of 2021 Notes

The rights attaching to the 2021 Notes are detailed in the summary of the Convertible Notes Facility Agreements detailed in Section 9.2. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of the holders of the 2021 Notes.

10.5 Dividend policy

The Company does not intend to declare or pay any dividends in the immediately foreseeable future.

Any future determination as to the payment of dividends by the Company will be at the sole discretion of the Directors and will depend on the availability of distributable earnings and operating results and financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Directors. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by the Company.

11 Additional information



11.1 ASX Announcements

The Company, as a disclosing entity under the Corporations Act states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) copies of documents lodged with the ASIC in relation to the Company (not being documents referred to in section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of the ASIC; and
- (c) it will provide a copy of each of the following documents, free of charge, to any person on request between the date of issue of this Prospectus and the closing date of the Offers:
 - (i) the annual financial report of the Company for the financial year ended 30 June 2018 being the most recent annual financial report of the Company lodged with the ASIC before the issue of this Prospectus; and



- (ii) the half year financial report of the Company for the six months ended 31 December 2017 lodged with ASIC after the lodgement of the annual financial report mentioned in paragraph (i) and before the issue of this Prospectus; and
- (iii) any documents used to notify ASX of information relating to the Company in the period from lodgement of the annual financial report referred to in paragraph (i) above until the issue of this Prospectus in accordance with the Listing Rules as referred to in section 674(1) of the Corporations Act.

Copies of all documents lodged with the ASIC in relation to the Company can be inspected at the registered office of the Company during normal office hours.

The Company has lodged the following announcements with ASX since the lodgement of its annual report on 19 October 2018:

| Date | Description of Announcement |
|------------------|---|
| 30 July 2019 | Notice of Meeting |
| 9 July 2019 | Grant of ASX Listing Rule Waivers |
| 8 July 2019 | Corporate Update |
| 26 June 2019 | Change of Auditor |
| 21 June 2019 | Change of Address |
| 15 May 2019 | Update on Voluntary Administration |
| 17 April 2019 | Creditors vote for Carnegie Recapitalisation Proposal |
| 11 April 2019 | Report to Creditors |
| 18 March 2019 | Carnegie Clean Energy Limited Recapitalisation Process |
| 15 March 2019 | Appointment of Voluntary Administrators |
| 13 March 2019 | Voluntary Suspension Extension Request |
| 12 March 2019 | WA State Government terminates Albany Funding Agreement |
| 6 March 2019 | Company update |
| 6 March 2019 | Half Yearly Report and Accounts |
| 1 March 2019 | Suspension from Official Quotation |
| 1 March 2019 | Failure to lodge half year accounts |
| 28 February 2019 | Enel Green Power Collaboration update |
| 21 February 2019 | Garden Island Commissioning Complete |
| 18 February 2019 | Albany Funding Plan |
| 12 February 2019 | Notice of change of interests of substantial holder |
| 1 February 2019 | Quarterly Report |
| 31 January 2019 | Appendix 4C - Quarterly |
| 29 January 2019 | Enel Green Power Milestone Achieved |
| 25 January 2019 | Northam and Delamere Project Completions |
| 23 January 2019 | Notice of change of interests of substantial holder |
| 18 January 2019 | Change of address |
| 21 December 2018 | Notice of change of interests of substantial holder |
| 12 December 2018 | Northam Partial Sale Update |
| 4 December 2018 | Notice of Release from Escrow |
| 30 November 2018 | Final Director's Interest Notice |
| 30 November 2018 | Retirement of Director |
| 30 November 2018 | Results of AGM |
| 30 November 2018 | Chairman's Address to Shareholders |
| 30 November 2018 | EMC MPower Transaction Update |
| 30 November 2018 | TAG: EMC Transaction Update |
| 28 November 2018 | Albany Funding Plan Extension |
| 28 November 2018 | Pause in trading |
| 21 November 2018 | Northam Solar Commences Generation |
| 20 November 2018 | Debt Facility |
| 1 November 2018 | Quarterly Report |
| 31 October 2018 | Appendix 4C - Quarterly |
| 26 October 2018 | Notice of Annual General Meeting and Proxy Form |
| 24 October 2018 | TAG: EMC Acquisition advances with new terms |
| 24 October 2018 | EMC - MPower Transaction Update |
| 24 October 2018 | Trading Halt |
| 24 October 2018 | Pause in Trading |
| 19 October 2018 | Appendix 4G |

11.2 Interests of Directors

Except as disclosed in this Prospectus, no Director or Proposed Director (or entity in which they are a partner or director) has, or has had in the two years before the date of this Prospectus, any interests in:

- (a) the formation or promotion of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Offers; or
- (c) the Offers;

and no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be given to:

- (a) any Director or Proposed Director to induce him or her to become, or to qualify as, a Director; or
- (b) any Director or Proposed Director for services which he or she (or entity in which they are a partner or director) has provided in connection with the formation or promotion of the Company or the Offers.

11.3 Directors' Interests

As at the date of this Prospectus, the relevant interests of the Directors and Proposed Director and their related entities in securities in the Company, are detailed in the table below.

| Director | Shares | Options | Performance Rights | Convertible Notes |
|------------------------------|--------------------------|-------------------------|--------------------|-------------------|
| Terry Stinson | - | - | - | - |
| Grant Mooney | 2,628,278 ¹ | - | - | - |
| Michael Fitzpatrick | 125,365,359 ² | - | - | 100 ² |
| Anthony Shields ³ | 66,750,000 | 25,000,000 ⁴ | - | 50 ⁵ |

Notes:

1. 2,628,278 Shares held in Mooney & Partners, an entity owned and controlled by Mr Grant Mooney, a Director.
2. 116,819,904 Shares held in Log Creek Pty Ltd and 8,545,455 Shares held by Log Creek Pty Ltd ATF The Log Creek Vineyard Trust, being an entity owned and controlled by Mr Michael Fitzpatrick, a Director. 100 CCE Notes each with a face value of \$10,000, a conversion price of \$0.04 and a maturity date of 11 January 2020. 50% of these CCE Notes will be replaced by the 2021 Notes and the remaining 50% will convert into New Shares and Options. Refer to Section 9 for further details.
3. 66,750,000 Shares, 25,000,000 Options and 50 CCE Notes are held by Asymmetric Credit Partners Pty Ltd, an entity owned and controlled by Mr Anthony Shields, a proposed Director.
4. 25,000,000 Options each with an exercise price of \$0.06 and an expiry date of 24 January 2024.
5. 50 CCE Notes each with a face value of \$10,000, a conversion price of \$0.04 and a maturity date of 11 January 2020. 50% of these CCE Notes will be replaced by the 2021 Notes and the remaining 50% will convert into New Shares and Options. Refer to Section 9 for further details.

11.4 Directors' Remuneration

The remuneration (including superannuation) of existing Directors for the current financial year and the financial year ended 30 June 2018 are as follows:

| Director | Title | Financial Year to 30 June 2019 | Financial Year to 30 June 2018 |
|---------------------|--|--------------------------------|--------------------------------|
| Terry Stinson | Non-Executive Chairman | \$90,969 | \$76,159 |
| Grant Mooney* | Non-Executive Director/Company Secretary | \$84,598 | \$125,962 |
| Michael Fitzpatrick | Non-Executive Director | \$44,598 | \$62,962 |
| Anthony Shields | Non-Executive Director | - | - |
| Total | | \$220,165 | \$265,083 |

* Includes fees paid to associated company Mooney & Partners for company secretarial services.

The existing Directors have entered into deeds of variation pursuant to which following the effectuation of the DOCA their existing fees will be reduced. Refer to Section 9.9 for further details.

11.5 Significant Shareholder

Based on the publically available information, the Company has the following significant Shareholder:

| Significant Shareholder | Number of Shares | Voting Power (%) |
|-------------------------|------------------|------------------|
| John Rix Davidson | 148,571,428 | 5.1% |

11.6 Interests of Other Persons

No promoter or other person named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus (or entity in which they are a partner or director) do not hold, have, and have not had in the two years before the date of this Prospectus, any interest in:

- (a) the formation or promotion of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offers; or

(c) the Offers,

and no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be given to a promoter or any person named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus (or entity in which they are a partner or director), provided in connection with the formation or promotion of the Company or the Offers, except as disclosed in this Prospectus and as follows:

- (d) DLA Piper has acted as the Australian lawyers to the Company for the Offers. In respect of this work the Company will pay DLA Piper approximately \$70,000 (exclusive of GST). During the two years before the date of this Prospectus, DLA Piper has provided the Company with legal services and was paid approximately \$400,000 for these services; and
- (e) Security Transfer Australia Pty Ltd conducts the Company's share registry functions and will provide administrative services in respect to the proposed Share applications pursuant to this Prospectus. Security Transfer Australia Pty Ltd will be paid for these services on standard industry terms and conditions.
- (f) BDO Corporate Finance (WA) Pty Ltd has acted as investigating accountants for the Offers. In respect to this work the Company will pay BDO Corporate Finance (WA) Pty Ltd approximately \$20,000.

The amounts disclosed above are exclusive of GST.

11.7 Related party transactions

At the date of this Prospectus, no material transactions with related parties and Directors interests exist that the Directors are aware of, other than those disclosed in this Prospectus.

11.8 Market price of Shares

The highest and lowest market sale prices of the Shares on ASX during the three months immediately preceding the date of lodgement of this Prospectus with ASIC and the respective dates of those sales were:

Highest: \$0.02 (6 August 2018)

Lowest: \$0.003 (7 March 2019)

The latest available market sale price of the Shares on ASX prior to the date of lodgement of this Prospectus with ASIC was \$0.003 per Share on 1 March 2019.

11.9 Costs of the Offers

The costs of the Offers payable by the Company (exclusive of GST) are estimated to be as follows:

| | (A\$) | (A\$) |
|----------------------------------|----------------------|----------------------|
| | Minimum Subscription | Maximum Subscription |
| ASIC lodgement fee | \$3,206 | \$3,206 |
| ASX quotation fee | \$20,000 | \$26,000 |
| Legal Fees | \$70,000 | \$70,000 |
| Postage and Printing | \$71,000 | \$71,000 |
| Investigating Accountants Report | \$20,000 | \$20,000 |
| Other costs and contingency | \$50,294 | \$84,794 |
| Total | \$234,500 | \$275,000 |

11.10 Taxation Implications

The acquisition and disposal of Shares will have taxation consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in Company are urged to take independent financial advice about the taxation and any other consequences of acquiring and selling the Shares.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisers accept no liability or responsibility with respect to the taxation consequences of subscribing for New Shares.

11.11 Litigation and Claims

So far as the Directors are aware, other than as disclosed by the Company to ASX, there is no current or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which the Company (or any other member of the Group) is directly or indirectly concerned which is likely to have a material adverse effect on the business or financial position of the Company or the Group.

11.12 Consents

Chapter 6D of the Corporations Act imposes a liability regime on the Company (as the offeror of the New Shares), the Directors, Proposed Director, persons named in this Prospectus with their consent as proposed Directors of the Company, persons named in this Prospectus with their consent as having made a statement in this Prospectus and persons involved in a contravention in relation to this Prospectus, with regard to misleading or deceptive statements made in this Prospectus. Although the Company bears primary responsibility for this Prospectus, other parties involved in the preparation of this Prospectus can also be responsible for certain statements made in it.

Each of the following parties:

| Name | Role |
|-------------------------------------|--------------------------|
| DLA Piper | Lawyers |
| Security Transfer Australia Pty Ltd | Share Registry |
| BDO Corporate Finance (WA) Pty Ltd | Investigating Accountant |

- (a) has given its consent to be named in this Prospectus as detailed above and has not withdrawn its consent at the date of lodgement of this Prospectus with ASIC;
- (b) makes no express or implied representation or warranty in relation to the Company, this Prospectus or the Offers;
- (c) has not made or purported to have made any statement in this Prospectus or statement on which a statement in this Prospectus is based, except as described in this Section; and
- (d) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for this Prospectus other than a reference to its name and any statement or report included in this Prospectus with the consent of that party as described in this Section.

None of the parties referred to in this Section 11.11 has authorised or caused the issue of this Prospectus or the making of the Offers.

Each of the Directors has given their written consent to being named in this Prospectus in the context in which they are named and have not withdrawn their consent prior to lodgement of this Prospectus with ASIC.

11.13 Documents available for inspection

The following documents are available for inspection during normal business hours at the registered office of the Company:

- (a) this Prospectus; and
- (b) the Constitution.

11.14 Electronic Prospectus

Pursuant to Regulatory Guide 107, ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic copy of this Prospectus on the basis of a paper Prospectus lodged with ASIC and the issue of New Shares in response to an electronic Application Form, subject to compliance with certain provisions. If you have received an electronic copy of this Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Forms. If you have not, please contact the Company and the Company will send to you, free of charge to you, either a hard copy or a further electronic copy of this Prospectus or both.

The Company reserves the right not to accept an Application Form from an Applicant if it has reason to believe that when that Applicant was given access to the electronic Application Form, it was not provided together with an electronic copy of this Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered. In such a case, the Application Monies shall be held by the Company on trust and returned (without interest) to the Applicant as soon as practicable.

12 Authorisation



This Prospectus is authorised by each of the Directors.

This Prospectus is signed for and on behalf of the Company, pursuant to a resolution of the Board, by:

Mr Grant Mooney
Non-Executive Director
Dated: 31 July 2019





In this Prospectus, unless the context otherwise requires:

- 2021 Notes** has the meaning given in Section 2.3.
- 2021 Notes Offer** has the meaning given in Section 4.2(c).
- 2021 Note Offer Application Form** has the meaning given in Section 4.12(e).
- 2021 Notes Offer Closing Date** has the meaning given in Section 4.10.
- 2021 Option Exercise Price** has the meaning given in Section 9.2.
- 2021 Option Expiry Date** has the meaning given in Section 9.2.
- 2021 Option Notice of Exercise** has the meaning given in Section 9.2.
- Additional Offers** means the Lender Offer, the Funding Offer and 2021 Notes Offer.
- Administrators and Deed Administrators** means Richard Tucker and John Bumbak of KordaMentha Restructuring.
- Admitted Claim** has the meaning given in Section 9.1.
- Annual Report** means the financial report lodged by the Company with ASIC in respect to the year ended 30 June 2018 and includes the corporate directory, review of activities, Shareholder information, financial report of the Company and its controlled entities for the year ended 30 June 2018, together with a Directors' report in relation to that financial year and the auditor's report for the period to 30 June 2018.
- Applicant** means a person who submits an Application Form.
- Application** means a valid application for New Securities under the Offers made pursuant to an Application Form.
- Application Form** means an Entitlement and Acceptance Form, Shortfall Application Form, Lender Offer Application Form, Funding Offer Application Form or 2021 Note Offer Application Form (as applicable).
- Application Monies** means application monies for New Shares or Shortfall Shares received by the Company from an Applicant.
- Appointment Date** has the meaning given in Section 9.1.
- ARENA** has the meaning given in Section 2.3(i).
- ARENA Notes** has the meaning given in Section 2.3(i).
- ASIC** means the Australian Securities & Investments Commission.
- ASX** means ASX Limited ABN 98 008 624 691 and where the context permits, the market operated by it.
- ASX Settlement Rules** means ASX Settlement Operating Rules of the ASX.
- Asymmetric** means Asymmetric Credit Partners Pty Ltd.
- AWEP** has the meaning given in Section 2.2.
- BA** has the meaning given in Section 3.3(a).
- Board** means the board of Directors.
- Business Day** means Monday to Friday inclusive, excluding public holidays in Western Australia and any other day that ASX declares is not a trading day.
- CBA Facilities** has the meaning given in Section 2.6.
- CCE Notes** has the meaning given in Section 2.3.
- CCE Noteholder** means a holder of a CCE Note.
- CETO Unit** means a wave energy converter utilising the CETO Technology which include the CETO 3 Unit, CETO 5 Unit and the CETO 6 Unit (common infrastructure such as the export cable and grid connection do not form part of the CETO Unit).
- CETO Technology** has the meaning given in Section 2.1.
- CHES** means ASX Clearing House Electronic Subregistry System.
- Closing Date** means the date referred to as such in the Indicative Timetable.
- Company** or **Carnegie** means Carnegie Clean Energy Limited ACN 009 237 736.
- Constitution** means the constitution of the Company as at the date of this Prospectus.
- Convertible Note** means a convertible note issued by the Company from time to time.
- Convertible Note Trust Deed** means the convertible note trust deed dated 17 November 2013 which was subsequently amended by the letter of agreement dated 13 March 2014, deed of amendment dated on or about 14 July 2015 and as amended and restated on 30 November 2016.
- Convertible note Facility Agreements** has the meaning given in Section 9.2.
- Corporations Act** means the *Corporations Act 2001* (Cth).
- Coupon Rate** has the meaning given in Section 9.2.
- Creditors' Trust** has the meaning given in Section 2.3.
- Creditors' Trust Deed** has the meaning given in Section 9.1.
- Director** means a director of the Company.
- DLA Piper** means DLA Piper Australia.
- DOCA** has the meaning given in Section 2.3.
- DoD** has the meaning given in Section 3.2.
- DPIRD** has the meaning given in Section 3.2(c).
- Eligible Shareholder** means a person who:
- is a Shareholder at 5.00pm (WST) on the Record Date; and
 - has a registered address in Australia or New Zealand as recorded with the Share Registry as at the Record Date.
- EMC Business** has the meaning given in Section 2.1.
- EMC Co** means Energy Made Clean Pty Ltd ACN 118 300 520 (in liquidation).
- ENEL Green** has the meaning given in Section 9.7.
- Entitlement** means a Shareholder's entitlement to subscribe for New Shares under the Offer.
- Entitlement and Acceptance Form** means the entitlement and acceptance form attached to, or accompanying this Prospectus, that sets out the entitlement of an Eligible Shareholder to subscribe for New Shares pursuant to the Offer and Shortfall Shares pursuant to the Shortfall Offer.
- Entitlement Offer** has the meaning given in Section 4.1.
- Foreign Shareholder** means a Shareholder who is not an Eligible Shareholder.
- Funding Loan** has the meaning given in Section 2.3.
- Funding Options** has the meaning given in Section 4.2(b).
- Funding Option Exercise Price** has the meaning given in Section 10.3.
- Funding Option Expiry Date** has the meaning given in Section 10.3.
- Funding Option Notice of Exercise** has the meaning given in Section 10.3.
- Funding Offer** has the meaning given in Section 4.2(b).
- Funding Offer Application Form** means the application form attached to, or accompanying this Prospectus, to be used for the purposes of applying for Funding Securities.
- Funding Offer Closing Date** has the meaning given in Section 4.10.
- Funding Securities** has the meaning given in Section 4.2(b).
- Funding Shares** has the meaning given in Section 4.2(b).
- Garden Island Microgrid** or **GIMG** means the Garden Island microgrid located in Garden Island, Western Australia.
- General Meeting** has the meaning given in Section 2.7.
- Group** means the Company and each of its subsidiaries.
- HFM** means HFM Investments Pty Ltd.
- HFM Bridge Loan** has the meaning given in Section 2.3.
- HFM Loan Agreement**
- Indicative Timetable** means the indicative timetable on page 9 of this Prospectus.
- Interest Payment Dates** has the meaning given in Section 9.2.
- Interest Shares** has the meaning given in Section 2.3.
- Issuer Sponsored** means securities issued by an issuer that are held in uncertificated form without the holder entering into a sponsorship agreement with a broker or without the holder being admitted as an institutional participant in CHES.
- Lender Offer** has the meaning given in Section 4.2(a).
- Lender Offer Application Form** means the application form attached to, or accompanying this Prospectus, to be used for the purposes of applying for Lender Securities.
- Lender Offer Closing Date** has the meaning given in Section 4.10.
- Lender Options** has the meaning given in Section 4.2(a).
- Lender Option Exercise Price** has the meaning given in Section 10.2.
- Lender Option Expiry Date** has the meaning given in Section 10.2.
- Lender Option Notice of Exercise** has the meaning given in Section 10.2.
- Lender Securities** has the meaning given in Section 4.2(a).
- Lender Shares** has the meaning given in Section 4.2(a).
- Listing Rules** means the official listing rules of ASX.
- Log Creek** means Log Creek Pty Ltd ATF the Green 88 Trust.
- ML** has the meaning given in Section 3.3(a)(i).
- ML Controller** has the meaning given in Section 3.3(a)(i).
- ML Solver** has the meaning given in Section 3.3(a)(ii).
- Mooney & Partners** means Mooney and Partners Pty Ltd.
- New Option** means an Option offered pursuant to this Prospectus.
- New Securities** means New Shares, New Options and 2021 Notes.
- New Share** means a Share offered pursuant to this Prospectus.
- Lenders** has the meaning given in Section 4.2(a).
- OEM** has the meaning given in Section 3.3(a).
- Offers** means the Entitlement Offer, the Shortfall Offer and the Additional Offers.
- Official List** means the official list of the ASX as amended from time to time.
- Official Quotation** means quotation of Shares on the official list of ASX.
- Opening Date** means the date referred to as such in the Indicative Timetable.
- Option** means an option to acquire a Share.
- Proponents** has the meaning given in Section 2.3.
- Prospectus** means this prospectus dated 31 July 2019.
- Proposed Director** means Mr Anthony Shields.
- PTO** has the meaning given in Section 3.3(a).
- Repayment Date** has the meaning given in Section 9.2.
- R&D Agreement** has the meaning given in Section 9.7.
- Recapitalisation Proposal** has the meaning given in Section 2.3.
- Record Date** means the date referred to as such in the Indicative Timetable.
- Section** means a section of this Prospectus.
- Share** means a fully paid ordinary share in the capital of the Company.
- Shareholder** means a registered holder of Shares.
- Share Registry** means Security Transfer Australia Pty Ltd.
- Shortfall** means the New Shares not applied for under the Offer before the Closing Date.
- Shortfall Application Form** means the application form attached to, or accompanying this Prospectus, to be used for the purposes of investors who are not Eligible Shareholders applying for Shortfall Shares.
- Shortfall Offer** has the meaning given to that term in Section 4.6.
- Shortfall Shares** means the New Shares constituting the Shortfall.
- Statements** has the meaning given to that term in Section 5.
- Trust Fund** has the meaning given in Section 9.1.
- Trustees has the meaning given in Section 9.1.
- VWAP** means, in relation to the Shares for a particular period, the volume weighted average price of trading in Shares on the ASX market over that particular period.
- Wave Predictor** has the meaning given in Section 3.3(a)(i).
- WST** means Australian Western Standard Time.

