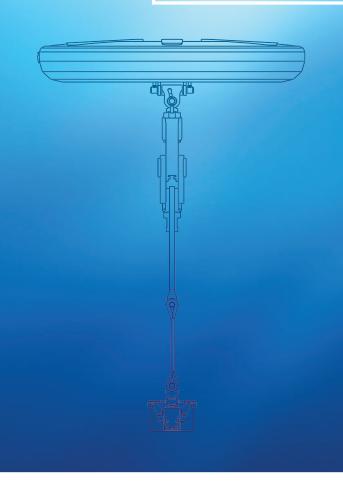
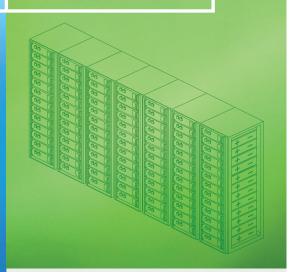




Annual Report 2016



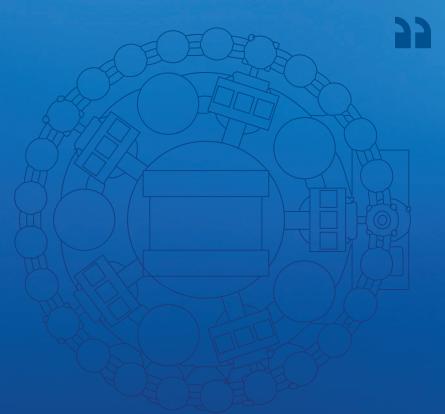


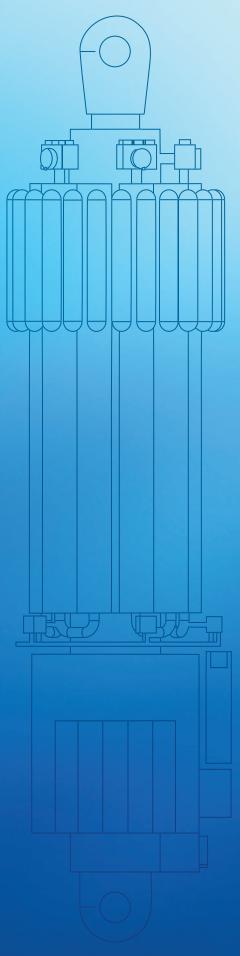
Carnegie Wave Energy Limited ABN 69 009 237 736

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Of the eight leading wave companies four have gone bankrupt, one was folded by its owner, one has scaled back its activities drastically, one has had serious setbacks and one (Carnegie Wave Energy) has made considerable progress with its technology.

**Bloomberg New Energy Finance, 2016** 





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## 12 Months of Achievement

CETO 6 concept design completed.



Carnegie conducted CETO 6 Wave Tank Testing at the University of Plymouth's COAST facility in the UK.



Carnegie achieved a world record of over 14,000 hours of operation, over 12 months for the Perth **Wave Energy Project.** 



All CETO 5 Perth Wave **Energy Project grant** milestone payments received upon Project decommissioning.



\$12m in research and development tax refund was received.



Carnegie signed a **Collaboration Agreement** with the Mauritius Government to explore opportunities for commercial wave energy off Mauritius.



Carnegie invested \$4.5 million to take a 35% stake in solar & battery microgrid business Energy Made Clean (EMC) with Carnegie's CEO Michael Ottaviano appointed to the board of EMC



Carnegie was awarded an Australian Research Council Grant for its partnership with the University of Western Australia (UWA) on a \$1 million project, to research and develop more efficient anchoring systems for wave energy converters.



Carnegie and ARENA signed a \$2.5m Funding Agreement for the Garden Island Microgrid Project.



Carnegie signed an MOU with Western Australian Government power utility - Western Power, to deliver the Garden Island Microgrid Project.



Carnegie secured \$800,000 of funding from the Australian **Department of Foreign** Affairs and Trade (DFAT) and the Government of Mauritius to investigate projects focused on high penetration renewable energy microgrids incorporating wave energy. Carnegie signed an MOU with the Seychelles Government to investigate commercial wave and microgrid opportunities.



**UIL Limited** (formerly Utilico) became a significant CWE shareholder.



Carnegie and the Commonwealth Bank completed Australia's first ever commercial bankfunded wave energy deal.



# Chairman & Managing Director's Report









On behalf of the Board of Directors, we are pleased to present to you Carnegie Wave Energy's 2016 Annual Report.

During the past year, Carnegie has taken great strides forward, establishing its position as the leading wave energy technology developer globally, achieving world firsts along the way, as well as forging a new business area in the rapidly growing renewable microgrid market.

We completed the successful delivery of our first CETO grid-connected array, the Perth Wave Energy Project, at Garden Island in Western Australia. This Project's operation over four seasons and 14,000 cumulative hours, across the three units, set a record for the longest running, gridconnected wave energy project in the world. Our computer models were validated and knowledge accumulated in key engineering areas such as hydrodynamics, load cases, installation and retrieval, operations and maintenance and tuning our system according to sea states.

This knowledge is now being applied by our team to the design of the next generation, commercial, CETO 6 unit. Whilst it can be difficult to demonstrate the development achieved during a design phase, we are very pleased with its progress and optimistic that CETO 6 will deliver its objectives. The results of CETO 5 have also been scrutinised as part of independent engineering due diligence processes for a variety of project and funding opportunities in Australia and internationally.

The CWE team has been working hard to generate a commercial demonstration option for CETO 6 in the United Kingdom, the major marine renewable energy market globally. These efforts, focused on the world class Wave Hub site in the South West of England, have recently been complicated by the Brexit events and associated uncertainty. To that end, we were pleased to see the recent decision by the UK Treasury to guarantee to continue to fund

any European grants still in place at the time of a future exit of the UK from Europe. We hope to provide an update on our Wave Hub project before the end of the calendar year.

It's worth remembering the scale of the challenge that Carnegie is tackling and succeeding at. No industrial scale power generation technology has ever been commercialised solely by the private sector; the time frame and capital intensity is beyond the scope of the private sector alone. The commercialisation of all existing mainstream power technologies has occurred with significant amounts of Government funding, typically 100% Government funding, until they were de-risked sufficiently for the private sector to exploit and improve. Some, such as nuclear, despite sixty years of Government funding, can still only be funded by Governments or Government owned utilities and are still uninsurable by the private sector. We believe we will be the first to commercialise a wave energy technology. But, as the failure of many of our peers highlights, there are no short cuts. It takes time, capital and a world class team to achieve such success.

Separately, we are excited to have launched our microgrid business unit during the year. This exposes Carnegie to another growth market, closely aligned with our core wave technology market, but one without technology risk and with the advantage of realising revenues immediately. This time last year, this business was an unannounced concept. In less than a year, and within our existing overhead, we've won \$800,000 worth of microgrid work on Mauritius, taken a 35% stake in Australia's leading microgrid engineering company, Energy Made Clean, and, most recently, launched our flagship Garden Island Microgrid Project.

The Garden Island Microgrid Project will be another world first - integrating our CETO 6 technology with 2MW of solar PV, 2MW/0.5MWh of battery storage and our existing containerised desalination plant. The Project will be a showcase for islands nations and fringe of grid applications globally and will unlock future project opportunities. The Project is supported by \$2.5m in funding from the Federal Government's Australia Renewable Energy Agency (ARENA) and the Western Australian Government transmission and distribution owner, Western Power.

The introduction of our microgrid business allows increased focus on building cashflows and ultimately, profitability from a new, rapidly growing domestic and global market opportunity, while we continue to develop the world's best wave technology, with the associated enormous potential of that market.

We would like to thank our CWE team for their hard work through the year, as well as acknowledging the support of our loyal shareholders through the transition from CETO 5 to CETO 6, and the establishment of our new microgrid business. Whilst we are disappointed with the performance of our share price over the last two years, we are working hard to turn this around. We believe that the excellent progress we have been making on CETO and our microgrid business behind the scenes over the past year, will be recognised by the market in the coming months and years.

# Company Overview



## Carnegie expanded its renewable energy market offering beyond CETO to include the rapidly growing solar and battery microgrid project segment.

Carnegie Wave Energy Limited is an ASX-listed (ASX: CWE) company and the owner and developer of the CETO wave energy technology. Carnegie's 100% proprietary technology, CETO, is capable of producing zero-emission electricity offshore that can be used to directly power an onshore desalination plant to produce freshwater. The CETO technology is unique in the wave energy industry as it is fully submerged, with minimal visual impact and can be adapted to operate in a variety of water depths, swell directions, and seafloor conditions.

In 2015, Carnegie's CETO 5 Perth Wave Energy Project (Perth Project) became the only grid-connected wave energy array operating anywhere in the world. The Project set a bench mark in the wave energy industry by operating for over 14,000 cumulative hours, over 3 units, for a period of 12 months. As a result of the Perth Project, Carnegie is considered the leader in wave energy development globally. It has now progressed to developing its commercial product platform, CETO 6, aiming for first installations at Garden Island in Western Australia and at Wave Hub in the United Kingdom.

In 2016, Carnegie expanded its renewable energy offering beyond CETO to include the rapidly growing solar and battery microgrid market. As part of this strategy, Carnegie signed a strategic Alliance Agreement with leading Australian solar and battery company Energy Made Clean (EMC). Carnegie also took a 35% stake in EMC and a seat on the Board of Directors. Carnegie's nascent microgrid business opens up the potential for Carnegie to enter new markets and generate earlier revenues from solar and battery microgrid projects with the plan of integrating CETO into some of these systems, after commercialisation. The first demonstration of the integration of CETO into a microgrid is the recently announced Garden Island Microgrid Project. Earlier this year, the presence of both CETO and Carnegie's microgrid capability won Carnegie a microgrid design and renewable energy roadmap study from the Government of Mauritius.

Although based in Fremantle, Western Australia, Carnegie has a global presence with 100% owned subsidiaries in the United Kingdom, Chile and Ireland.



EMC Managing Director John Davidson and Carnegie Managing Director Dr. Michael Ottaviano.

# Strategic Alliance & Investment



In 2016, Carnegie purchased a 35% stake in Energy Made Clean, joining with them to deliver solar and battery microgrid projects in Australia and globally.

Carnegie invested \$4.5m (composed of \$1.5m in CWE shares and \$3m cash) to take a 35% stake in leading Australian solar and battery company Energy Made Clean (EMC). Under their Strategic Alliance Agreement, Carnegie and EMC are partnering to deliver microgrid projects in Australia and globally. Carnegie's CEO, Dr Michael Ottaviano, has joined the Board of EMC to aid the alliance.

The execution of renewable energy microgrids into island markets will initially involve combinations of bankable technologies, such as solar, wind and batteries, and leveraging existing infrastructure such as the electricity grid and, where applicable, diesel generation. For those markets with a commercial wave resource, Carnegie will integrate its CETO wave energy technology later, once it is also bankable. According to Navigant Research, the global market for microgrids was worth an estimated US\$4.3 billion in 2013 and is forecast to grow in excess of US\$20 billion by 2020.

EMC and Carnegie's first joint project is in Mauritius and commenced in 2015. This is the first in a pipeline of microgrid projects currently under development along with the Garden Island Microgrid Project.

EMC adds to Carnegie's renewable energy offering, with a proven track record of delivering utility grade power solutions throughout Australia and overseas. EMC are able to offer energy independence with their stand-alone Power On Demand (POD) solutions, Water Pumping Systems and Commercial Solar PV.

Since 2004, EMC has been delivering ground-breaking renewable energy projects including; Thevenard Island Solar Power Station (324 kW solar, 614/kWh battery and 440kVA diesel), Alkimos trial (1.1MWh on-grid battery system), CSIRO Murchison Radio Telescope (1.6MW solar/2.6MWh battery) and the Timaru Washdyke Project in New Zealand (1MW on grid battery system).



WA Minister for Energy, Hon. Dr Mike Nahan (front) and WA Gentailer CEO, Synergy's Jason Waters (back), touring EMC's Alkimos Project

# Perth Wave **Energy Project**

### Overview



## The CETO 5 Perth Project operated for over 12 months, achieving an industry record of 14,000 cumulative, operational hours.

The CETO 5 Perth Wave Energy Project was Carnegie's first demonstration of a grid and freshwater connected CETO array. The array was located 3km offshore from the onshore water and power production facility on Garden Island, Western Australia, approximately 30km from the Perth CBD and home to the HMAS Stirling, Australia's largest naval base.

The Project was supported by \$13.1m in Australian Government funding through the Australian Renewable Energy Agency's (ARENA) Emerging Renewables Program, \$7.3m from the Western Australian State Government through the Low Emissions Energy Development (LEED) fund, with a further \$1.27m of support for the co-located desalination pilot plant from AusIndustry as part of its Clean Technology Innovation Program.

The Project achieved over 14,000 hours of cumulative operation across all 4 seasons over its 12 months of operation, making it the longest continuous period of operation of any in-ocean wave energy project. Carnegie completed the operational phase of the Perth Project at the end of 2015, after the Project collected a wealth of key

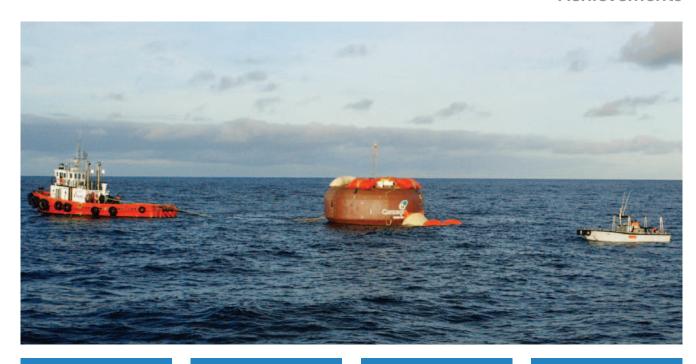
engineering, operation and maintenance and environmental data, allowing validation of its computational models and meeting all requirements of the funding agreements. All three CETO 5 units were safely retrieved and brought back to shore for inspection, analysis and decommissioning.

Carnegie conducted an internal performance assessment of the Project based upon respected industry standards for performance assessment of wave energy converters. This found excellent correlation between the modelled and the measured performance. Subsequently, an external review of the Project has been carried out by ARENA's independent technical engineering firm which confirmed that the Project met all of its objectives. The Perth Project's results have also been used in independent assessments and due diligence by future site and international, government grants.

The success of the Perth Project has led to the confidence of Carnegie's project partners ARENA and Western Power to again join with Carnegie on Garden Island in commencing design on the Garden Island Microgrid.

# Perth Wave **Energy Project**

**Achievements** 



**Demonstrated the** technical and functional viability of a large scale **CETO** array.



Achieved over 14,000 hours of deployment across all 4 seasons.



Completed the required 12 month operational phase safely, with no lost-time injuries.



Produced utilitycompliant electricity by generating and exporting power to the grid.



**Produced mains-water** compliant desalinated freshwater.



Verified the accuracy of Carnegie's computational **CETO** system modelling against the measured Project performance.



Demonstrated, through recording of environmental interactions of the Project, minimal environmental impact.



Confirmed the feasibility of the deployment, operation and recovery of the Project's major elements including pipeline, CETO units and foundations.

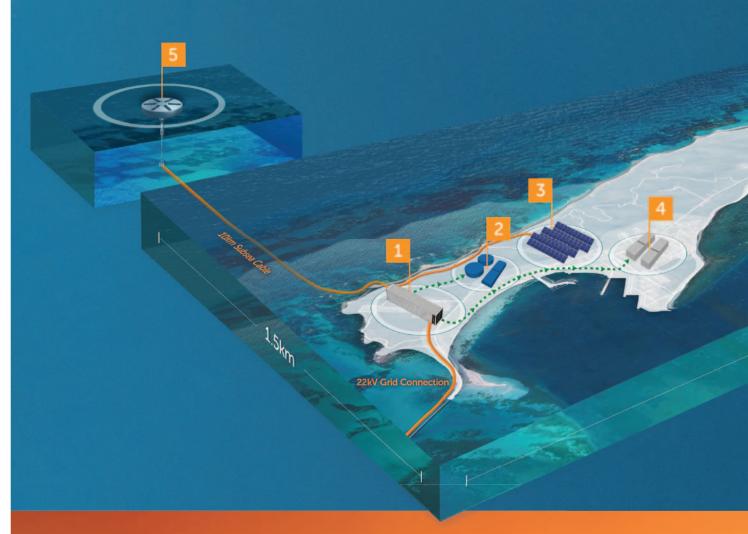


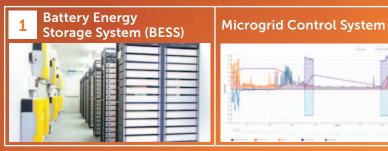
Met all milestones and received all funding from the Government of Western Australia's Low Emissions **Energy Development (LEED)** Fund and the Australian Government's Australian Renewable Energy Agency (ARENA).



# Garden Island Microgrid Project

Carnegie's Garden Island Microgrid Project (GIMG) will be the world's first wave integrated microgrid system combining wave, solar PV, battery storage and desalination. The Project will be located onshore at Garden Island and connected to the offshore CETO 6 Project.



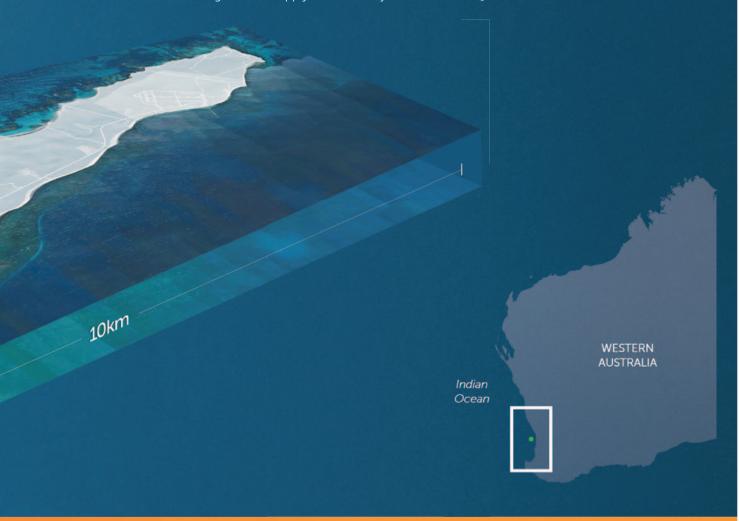




The GIMG, which is supported by \$2.5m in funding from the Federal Government's Australian Renewable Energy Agency (ARENA), will supply electricity and water to HMAS Stirling and consist of a 2MW solar PV array, 2MW/0.5MWh battery energy storage system, a microgrid control system and augmentation of the grid connection between Garden Island and Western Power. The GIMG will also integrate the supply of electricity

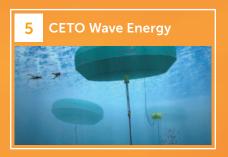
from Carnegie's CETO 6 technology and the Perth Wave Energy Project's existing desalination plant.

This unique and innovative Project will design and demonstrate high penetration, distributed variable renewable energy (VRE) on an isolated fringe of grid/ island grid system and will be able to operate in both islanded and grid connected modes.









# Mauritius Project



## Carnegie and EMC's first joint project paves the way for further penetration into the remote island renewable energy market.

Carnegie identified Mauritius as a potential CETO project site some time ago and in 2015, signed a collaboration agreement with the Mauritius Research Council (MRC). The collaboration agreement enables Carnegie to identify opportunities and develop pathways for commercial wave energy and renewable microgrids for the Republic of Mauritius, with the aim of providing a sustainable source of electrical power for the island nation.

The \$800,000 Project is funded through a partnership between the Australian and Mauritian Governments and is being administered by the MRC. Carnegie will receive payment for delivering a series of 3 work packages. Other contributors to the Project include; the Mauritian Coast Guard, Mauritius Meteorological Services, the University of Western Australia and EMC.



Wave monitoring buoy being prepared for deployment in Mauritius by Carnegie Analysis Engineer, Jess Kolbusz



Carnegie Chief Operating Officer Greg Allen with the High Commissioner to Mauritius Ms Susan Coles and Mauritian Government representatives at the signing of the collaboration agreement for the Mauritius Project.

# Mauritius Project



## **Work Packages**



A high penetration renewable energy roadmap for Mauritius, including technical, commercial and financial feasibility.



Assessment of the wave energy resource, site conditions and priority sites for commercial CETO wave energy devices.



Design of a decentralised microgrid for the island of Rodrigues, offering battery storage and control systems that enable higher renewable energy penetration (including wave).

Work began on the Mauritius Project in early 2015 and is due to complete at the end of 2016. In June 2016, Carnegie, assisted by the Mauritian Coast Guard, successfully deployed and commissioned a wave monitoring buoy off the south coast of Mauritius. The data, to be gathered over a minimum 6 month period by the buoy, will allow accurate assessment of the wave energy resource, at priority sites identified in conjunction with the University of Western Australia for commercial CETO wave energy devices.

Island markets are typically reliant on a high proportion of electricity generated using imported fossil fuels which is expensive and has a large environmental footprint. Carnegie has identified the island market as an early commercial market for CETO, as sufficient incentives exist to encourage renewable energy development. The successful completion of this Project will allow Carnegie to market its project development and microgrid services to other remote islands.



Wave monitoring buoy in situ.

# CETO 6 Design



CETO 6 incorporates all Carnegie has learnt since acquiring the CETO intellectual property in 2009, along with new ground breaking technology, into its commercial-scale CETO 6 system.

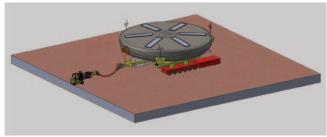
CETO 6 incorporates several innovations that continue its development trajectory of each generation being more powerful and efficient than the previous.

Carnegie's in-house modelling and analysis shows a corresponding relationship between buoy size, power output and cost. Over the years, this has driven Carnegie to increase the diameter of the buoyant actuator incrementally from approximately 2 metres to 11 metres in diameter with CETO 5. Carnegie's in-house design team has undertaken significant hydrodynamic modelling analysis of different buoy geometrics as part of the design phase of the CETO 6 Project, which has resulted in the CETO 6 buoyant actuator having an approximate diameter of 20 metres. This will result in an approximate four times power output increase compared with CETO 5. The measured performance results and learnings from the CETO 5 Perth Wave Energy Project operation, along with more recent CETO 6 hydrodynamic tank testing, have been incorporated by Carnegie into the CETO 6 design.

Another design advancement from the CETO 5 generation is the incorporation of the power generation system offshore, inside the buoyant actuator. This is a natural progression that builds on the confidence gained by Carnegie through the CETO 5 Project, where the electrical generation was deliberately separated from the offshore hydraulic energy generation.

This change has numerous advantages; including increased efficiency associated with the transmission of electricity ashore compared with fluid, capability of more rapid tuning response from Carnegie's advanced control system, the removal of heavy lifts previously associated with the seafloor mounted hydraulic pod, as well as increasing the commercial market for the CETO technology taking advantage of deeper, more distant to shore, wave resources and project sites. The increased unit capacity combined with superior efficiency and reduced maintenance costs allows CETO 6 to be capable of delivering a significant cost reduction on power.

In order to unlock the massive global opportunity that exists for CETO, Carnegie must demonstrate its CETO 6 technology in the most cost effective manner, at the best location for such a demonstration, whilst managing the risks that accompany the first time deployment of a new technology. Carnegie's experience in designing, financing, constructing and operating multiple generations of CETO systems, make it uniquely qualified for this challenge.



CETO 6 design modelled on the wharf preparing for launch.

# CETO 6 Projects



## Wave Hub, UK

In 2014, Carnegie was awarded a wave energy berth at the purpose built Wave Hub facility in Hayle, Cornwall.

The berth will allow Carnegie to construct a 10-15MW CETO array, connected to the subsea electrical cables already installed and the existing grid connection.

The Project is planned to be delivered in two stages. Carnegie, through its wholly owned subsidiary CWE UK, aims to deploy a single CETO 6 unit at Wave Hub as part of a pre-commercial Stage 1 project, to be commissioned in 2018. Subject to successful operation, this would then be built out to a 10-15MW commercial scale project at the same site, and potentially other sites, in 2020. The first phase includes adaptation of CETO to local site conditions and industrialisation of the technology, providing a route to a competitive cost of energy. Delivery of the second stage bridges the gap between technology readiness and commercialisation, offering a commercial return on investment.

Wave Hub is a grid connected wave energy test site in Cornwall, UK, developed to accelerate and support pre-commercial testing of wave energy device arrays. It provides a fully grid-connected and consented wave energy site, split into 4 berths, located approximately 10 nautical miles (16km) off the north coast of Cornwall.

CWE UK has its offices at the Marine Renewable Business Park, in the North Quay area of Hayle, Cornwall.

## Garden Island

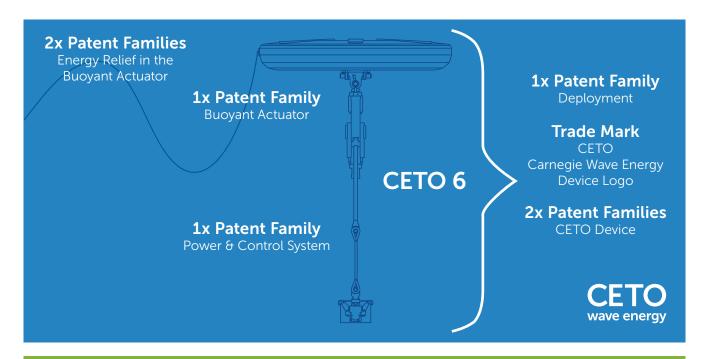
The CETO 6 Garden Island Project offers the ability to demonstrate CETO 6 at Carnegie's open water site, located approximately 12km offshore of Garden Island, Western Australia, with onshore facilities integrated with the GIMG Project. To support the funding of the Project, Carnegie has secured a five year, \$20m loan facility from Commonwealth Bank of Australia (CBA) and a \$11m grant from the Australian Renewable Energy Agency (ARENA).

The design of CETO 6 is well advanced, with suppliers engaged for each component or subsystem. The offshore geophysical survey activities have also been completed. The results of the latter influence elements of the Project including the foundation selection, the cable route and the overall installation methodology. The offshore survey also captured vital information about the geological characteristics of the exploration area, as well as detailed site bathymetry using methods such as single and multibeam echo sounding, and side scan sonar.



Garden Island Project site aerial view

# Intellectual Property



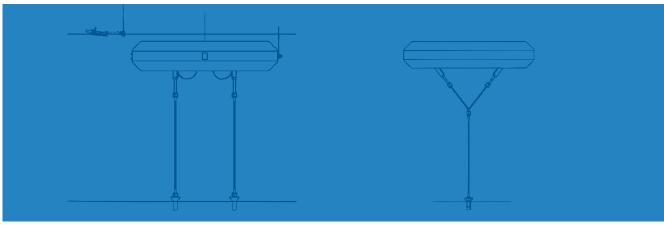
Carnegie views the creation, protection and maintenance of all aspects of Intellectual Property (IP) relating to the CETO technology as a core business competency.

Carnegie is the 100% owner of the global Intellectual Property & Development Rights for the CETO technology, and invests a significant amount of time and resources into protecting the novel aspects of the CETO technology. Carnegie, through their Intellectual Property Manager and network of external Patent Attorneys, are committed to ensuring the CETO technology remains protected.

The active and continued generation of new IP throughout the development of the CETO technology is a key competency within Carnegie's technical team, with generation and capture of new ideas widely encouraged.

Carnegie's 100% ownership of the CETO technology provides flexibility with commercialisation pathways, including build-own-operate projects, joint ventures, OEM technology licencing arrangements, as well as the provision of O&M services.

The CETO IP portfolio includes seven patent families, ranging in maturity, with 41 currently granted patents and over 100 patents pending. Carnegie continues to review and refine its IP portfolio to ensure that it is being optimised for both protection and cost of maintenance.



Patented alternative concept designs from 2013.

# Carnegie Team



## Carnegie continues to invest in its specialist team to remain at the forefront of renewable energy innovation.

Carnegie prides itself on having a world class, specialist team and strives to recruit and retain employees who bring excellence to the Company.

Carnegie's technical team consists of mechanical, hydraulic, electrical, structural, control, environmental, naval and hydrodynamic scientists and engineers. This team is supported by commercial, financial, HR, administration, legal, quality and procurement teams. To continue to build capability, Carnegie has strengthened its expertise over the past 12 months in project management & development, which has allowed Carnegie to pursue additional project opportunities, particularly in the microgrid space.



Carnegie's Commercial Team.

Carnegie has a strong, positive workplace culture that is closely aligned with Carnegie's values which are:

#### Resilient

We demonstrate adaptability, courage and professionalism to overcome challenging conditions and capitalise on new opportunities.

#### • Teamwork

We share a common vision, support each other, and encourage communication and collaboration.

#### Individuality

We respect and encourage diversity of thought and experience.

#### Creative

We dream big, using imagination and intelligence to deliver innovative solutions.

We strive to make a positive impact on people and the environment.

## Health, Safety & Environment



## Carnegie's priority is to ensure the safety of all our employees and stakeholders and to maintain the integrity of the environments we operate in.

Carnegie strives to achieve higher levels of health, safety and environment excellence through its Continuous Improvement Process.

The Company wide process ensures all incidents (including near misses) are reported and investigated. Carnegie's commitment to Health, Safety and Environment (HSE) is formalised and implemented through the Carnegie Management System. This system was developed to enable a uniform and effective standard of HSE management to be applied to all Carnegie activities. The system supports

Carnegie team during deployment of a CETO 5 unit off the coast of Garden Island Western Australia

Carnegie's commitment to health, safety, environment and quality providing documentation to ensure all employees are aware of their responsibilities within these areas.

The successful installation, operation and retrieval of the CETO 5 units during the Perth Project, was a major achievement for Carnegie, with no lost time injuries occurring and all work carried out as per the established safe work practices and procedures.

Throughout the life of the Perth Project, Carnegie placed an emphasis on ensuring that project activities, both onshore and offshore, had no adverse effects on the Garden Island environment. Environmental assessment and monitoring was carried out before, during and after CETO deployments, and Carnegie continues to monitor the site.

# Knowledge Sharing & Research



## Carnegie maintains an open dialogue with the local community and its national and international stakeholders in addition to its knowledge sharing activities.

Carnegie believes engaging with stakeholders and carrying out knowledge sharing activities is imperative to the successful delivery of Projects. Additionally, significant research is required for each phase of Carnegie's projects and as such, Carnegie partners with various research institutions to aid in the development of the CETO technology.

During the year, Carnegie was awarded an Australian Research Council Grant in partnership with the University of Western Australia (UWA) for a \$1 million research project to explore and develop more efficient anchoring systems for wave energy converters. In addition, Carnegie also conducted CETO 6 wave tank testing at the University of Plymouth's COAST Facility in the UK. The commencement of this testing coincided with discussions with leading academic and industry experts aimed at exploring opportunities to support CETO wave development in the UK. Carnegie used this opportunity to hold a seminar hosted by the University of Plymouth and attended by members of the Partnership for Research in Marine Renewable Energy (PRIMaRE).

Throughout the planning phase of the Perth Project, Carnegie engaged with the local Rockingham community to acquire feedback on all aspects of the Project. This feedback process continued throughout all stages of the Project, through a variety of mediums, including: presentations to stakeholder groups, site tours and open-day style events.

Carnegie continues to engage with stakeholders in communities around its corporate headquarters in Fremantle and welcomes opportunities to inform community members about Projects and the CETO technology via open days at its Private Wave Energy Research Facility, as well as tours of the facility for university groups and industry associations.

On the national and world stage, Carnegie is recognised as an industry leader and regularly participates in marine and renewable energy industry conferences and discussions as well as publishing articles and technical papers.



Carnegie Chief Financial Officer Aidan Flynn (right) with ARENA General Manager for Strategic Communications and Knowledge Management Andrea Gaffney (left) at the ARENA showcase at Parliament House in Canberra.

Carnegie Wave Energy Limited is a clean energy and clean energy technology development company. The Company has established procedures to encourage and maintain a culture of good corporate governance. The Board is responsible for establishing the Company's corporate governance framework, the key features of which are set out in this report. In establishing its corporate governance framework, the Board has referred to the 3rd edition of the ASX Corporate Governance Councils' Corporate Governance Principles and Recommendations.

The corporate governance statement set out in this report discloses the extent to which the Company is following the recommendations as at the date of this report. The Company follows each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices do not follow a recommendation, the Board has explained its reasons for not following the recommendation and disclosed what, if any, alternative practices the Company will adopt instead of those in the recommendation. Unless otherwise stated, the practices detailed in this statement have been in place for the entire reporting period ended 30 June 2016.

Governance-related documents can be found on the Company's website at www.carnegiewave.com, under the menu "About Us - Corporate Information" and within the section marked "Corporate Governance":

Compliance with Corporate Governance Principles and Recommendations

### Principle 1: Lay solid foundations for management and oversight

#### **Recommendation 1.1**

The listing entity should disclose:

- the respective roles and responsibilities of its board and management; and
- (b) those matters expressly reserved to the board and those delegated to management.

The Company complies with this recommendation. A policy on matters reserved for the Board is outlined in the "Matters Reserved for Board Approval" document and is available on the Company's website. The Company has established clear details of the roles and responsibilities of each of its board management members.

#### **Recommendation 1.2**

A listed entity should:

- undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and
- provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

The Company complies with this recommendation. The Company has a policy for the evaluation of the Board and Senior Executives in accordance with the Board and Senior Executives Evaluation Policy. The appointment of any director is subject to subsequent approval by shareholders at the next Annual General Meeting of the Company. Meeting materials for such meeting incorporates all relevant details to assist shareholders in deciding whether or not to elect or re-elect that director.

#### Recommendation 1.3

A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

The Company complies with this recommendation. Prior to the formal appointment of any director, a written agreement is entered into between the Company and the director setting out the terms and conditions of their appointment.

#### Recommendation 1.4

The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

The Company complies with this recommendation. The Company has two Company Secretaries, neither of which are the chairman of the Company. While one Company Secretary also fills the role of Non-Executive Director of the Company, he has significant experience in financial and corporative governance matters enabling him to suitably advise the Board on these areas.

#### Recommendation 1.5

A listed entity should:

- have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;
- (b) disclose that policy or a summary of it; and
- (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either;
  - (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or
  - if the entity is a "relevant employer" under the (2) Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under the Act.

The Company does not comply with this recommendation. The Company has not yet set measurable objectives for achieving diversity. The Board continues to monitor diversity across the organisation and is satisfied with the current level of gender diversity within the Company. Due to the size of the Company, the Board does not consider it appropriate at this time to formally set objectives for gender diversity. The Company currently employs (including on a consulting basis) 52 staff (11 females and 41 males). The Company recognises that a diverse and talented workforce is a competitive advantage and that the Company's success is the result of the quality and skills of our people. The company's policy on diversity is to employ the right person for the right job regardless of their gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability.

#### **Recommendation 1.6**

### A listed entity should:

- have and disclose a process for periodically evaluation the performance of the board, its committees and individual directors; and
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Company complies with this recommendation. On an annual basis the Company undertakes a review of the Board, its committees and individual directors which is confirmed in the Annual Report.

#### **Recommendation 1.7**

A listed entity should:

- have and disclose a process for periodically evaluating the performance of its senior executives; and
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Company complies with this recommendation. On an annual basis the Company undertakes a review of the senior executives which is confirmed in the Annual Report.

#### Principle 2: Structure the board to add value

#### **Recommendation 2.1**

The board of a listed entity should:

- have a nomination committee which: (a)
  - has at least three members, a majority of whom are independent directors; and
  - (2) is chaired by an independent director; and disclose:
  - (3) the charter of the committee:
  - (4) the members of the committee; and
  - (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

The Company does not comply with this recommendation. Given the Company's size, it is not considered necessary to have a separate Nomination Committee. In addition to the above, the following information is provided:

the skills, experience and expertise of each of the (a) Company's directors are set out in this report;

- (b) the Board, in consultation with external advisers where required, undertakes this role; and
- (c) a separate policy and procedure for Selection and Appointment of New Directors has been adopted by the Board which provides for the proper assessment of prospective directors and include, but are not limited to, their relevant experience and achievements, compatibility with other Board members, credibility within the Company's scope of activities, and intellectual and physical ability to undertake Board duties and responsibilities.

#### Recommendation 2.2

A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

The Company complies with this recommendation. The skills, experience and expertise of each of the Company's directors are set out in this report.

#### **Recommendation 2.3**

A listed entity should disclose:

- the names of the directors considered by the board to be independent directors;
- (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 of the 3rd edition of the ASX Corporate Governance Councils' Corporate Governance Principles and Recommendations but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and
- (c) the length of service of each director.

The Company complies with this recommendation. Non-Executive Directors Jeff Harding, Grant Mooney and John Leggate are considered Independent Directors. The length of service of each Director is set out in this report.

#### **Recommendation 2.4**

A majority of the board of a listed entity should be independent directors.

The Company currently has 3 independent directors and 3 non-independent directors, and so does not comply with this recommendation. Due to the size and stage of the Company an equal share of independent directors and non-independent directors is considered appropriate. The non-independent directors have significant experience in financial and corporative governance matters enabling them to suitably discharge their duties as directors.

#### **Recommendation 2.5**

The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.

The Company complies with this recommendation.

#### Recommendation 2.6

A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors efficiently.

The Company complies with this recommendation. The Company has established a process for induction of new directors and where possible, provides each director with opportunities for professional development such that they can improve their effectiveness as directors of the Company.

#### Principle 3: Act ethically and responsibly

#### **Recommendation 3.1**

A listed entity should:

- have a code of conduct for its directors, senior executives and employees; and
- disclose that code or a summary of it.

The Company complies with this recommendation. The Company has established a code of conduct for all directors, senior executives and employees which is available on the Company's website.

#### Principle 4: Safeguard integrity in corporate reporting

#### **Recommendation 4.1**

The board of a listed entity should:

- (a) have an audit committee which:
  - (1) has at least three members, all of whom are Non-Executive Directors and a majority of whom are independent directors; and
  - (2) is chaired by an independent director, who is not the chair of the board,

and disclose:

the charter of the committee;

- (4) the relevant qualifications and experience of the members of the committee; and
- (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

The Company complies with this recommendation. The Company has policies for Audit Committee Charter and the External Auditor Selection. A copy of these policies are provided on the Company's website. Details of the audit committee meetings are provided in this report.

#### **Recommendation 4.2**

The board of the listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Company complies with this recommendation. The Board receives assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration in relation to section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The Company also has a separate policy in relation to Risk Management which is available on the Company's website.

#### **Recommendation 4.3**

A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

The Company complies with this recommendation. The Company's auditor attends the annual general meeting of the Company and is available to answer any question in relation to the audit.

#### Principle 5: Make timely and balanced disclosure

#### **Recommendation 5.1**

A listed entity should:

- have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and
- disclose that policy or a summary of it.

The Company complies with this recommendation. The Company has a Continuous Disclosure policy which is set out on the Company's website.

#### Principle 6: Respect the rights of security holders

#### Recommendation 6.1

A listed entity should provide information about itself and its governance to investors via its website.

The Company complies with this recommendation. A summary of the Company's Corporate Governance policies is set on the Company's website.

#### **Recommendation 6.2**

A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.

The Company complies with this recommendation. The Company has established an investor relations program to ensure effective communications between the Company and shareholders and investors. The Company has a Shareholder Communication Policy which is set out on the Company website.

#### **Recommendation 6.3**

A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

The Company complies with this recommendation. The Company has a Shareholder Communication Policy which is set out on the Company website.

### **Recommendation 6.4**

A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

The Company complies with this recommendation. The Company provides the option to shareholders to receive communications electronically, notification of this option is provided by the Company registry.

#### Principle 7: Recognise and manage risk

#### **Recommendation 7.1**

The board of a listed entity should:

- (a) have a committee or committees to oversee risk, each of which:
  - (1) has at least three members, a majority of whom are independent directors; and
  - (2) is chaired by an independent director;

and disclose:

- (3) the charter of the committee;
- (4) the members of the committee; and
- (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- if it does not have a risk committee or committees (b) that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.

The Company does not comply with this recommendation. The Directors are of a view that given the size of the Company, it is not necessary to have a separate committee to oversee risk and this function is undertaken directly by the Board and senior management at regular intervals.

#### **Recommendation 7.2**

The board or a committee of the board should:

- (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and
- (b) disclose, in relation to each reporting period, whether such a review has taken place.

The Company complies with this recommendation. As stated above, in the forum of board meetings the board regularly addresses certain risks that may affect the Company's business interests and confirmation of these risks being addressed are noted in the Corporate Governance Policies within the Annual Report.

#### **Recommendation 7.3**

A listed entity should disclose:

- if it has an internal audit function, how the function is structured and what role it performs; or
- (b) if it does not have an internal audit function, that fact and the processes it employs for evaluation and continually improving the effectiveness of its risk management and internal control processes.

The Company does not comply with this recommendation. The Directors are of the view that given the size of the Company, it is not practical to have an internal audit function and that risk management is undertaken by the Board and senior management.

#### **Recommendation 7.4**

A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

The Company does not comply with this recommendation. The Directors are of the view that given the Company's size, risks are addressed directly by the Board and senior management and are not disclosed externally.

#### Principle 8: Remunerate fairly and responsibly

#### **Recommendation 8.1**

The board of a listed entity should:

- have a remuneration committee which:
  - has at least three members, a majority of whom are independent directors; and
  - (2)is chaired by an independent director;

and disclose:

- the charter of the committee: (3)
- the members of the committee; and (4)
- (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

(b) if it does not have a remuneration committee. disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

The Company complies with this recommendation. The Company has a policies for the Remuneration Committee Charter, the Senior Executives Remuneration and Non-Executive Director remuneration. A copy of these policies are provided on the Company's website. Details of the remuneration committee meetings are provided in this report.

#### **Recommendation 8.2**

A listed entity should separately disclose its policies and practices regarding the remuneration of Non-Executive Directors and the remuneration of executive directors and other senior executives.

The Company complies with this recommendation. The Company has separate policies relating to the remuneration of Non-Executive Directors as opposed to senior executives. These policies provide a basis for distinguishing the type of remuneration which is suitable for the two classes.

#### **Recommendation 8.3**

A listed entity which has an equity-based remuneration scheme should:

- (a) have a policy on whether participants are permitted to enter into transaction (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and
- (b) disclose that policy or a summary of it.

The Company complies with this recommendation. The Company has a Securities Trading Policy which, among other things, sets out the Company's policy on trading the Company's securities. A copy of this policy is on the Company's website.

### 30 June 2016

The Directors present their report on Carnegie Wave Energy Limited ("the Company", or "Carnegie") and its controlled entities, ("the Consolidated Group", or "Group") for the financial year ended 30 June 2016.

#### **Jeffrey Harding**

B.Eng, B.Com, MBA, FAICD (Chairman)

Mr Harding is recognised as one of Australia's leading alternative energy practitioners and has been a key driver in expanding the renewables market in Australia, South America and Europe since the mid-90's. From 1995 to 2005 Mr Harding was Managing Director of Pacific Hydro Limited, Australia's largest renewable energy developer with wind and hydro energy projects in Australia, Asia and Chile. During his tenure, Mr Harding oversaw the international expansion of the business with growth in market capitalisation from AU\$5 million to over AU\$750 million and an increase in profit after tax each year from 1996 to 2005, when Pacific Hydro was sold to IFM Renewable Energy. Mr Harding was also previously the Vice President of the Australian Business Council for Sustainable Development.

Mr Harding was also Chairman of Ceramic Fuel Cells Ltd (AIM:CFU), was formerly General Manager of Brambles Industrial Services and Vice President of the Australian Business Council for Sustainable Development. Mr Harding regularly presents on issues associated with climate change and renewable energy and was the 2014 Halsey Visiting Professor at the University of Virginia.

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

#### **Dr Michael Edward Ottaviano**

B.Eng, MSc, DBA, MAICD, M.I.EngAus (Chief Executive Officer and Managing Director)

Dr Ottaviano joined Carnegie in January 2006 and was made Managing Director in March 2007. Dr Ottaviano oversaw the acquisition of the CETO wave power intellectual property in 2009 and focusing of the company's efforts onto its commercialisation. During his time as Managing Director, Dr Ottaviano has led the development of CETO Wave Energy technology from Proof of Concept, Pilot Plant and Commercial Demonstration stages and has been responsible for raising over \$130m in equity, grants and debt. More recently he has steered the companies expanded focus into the solar / battery microgrid market.

Dr Ottaviano has previously worked in research and development and consulted in technology and innovation management. He has advised companies on new product development, intellectual property and technology commercialisation across various industries and ranging from start-ups to large multi-nationals. He is a former Board Member of the Clean Energy Council, Australia's clean energy peak industry group, and a member of the Australian Government's Energy White Paper Consultative Committee. He is also a Non-Executive Director of ASXlisted hearing technology start up. Nuheara Limited.

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

#### Kieran O'Brien

B.Eng, MBA, MEngSc, FIEI, FIEE (Executive Director)

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

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

#### Michael Fitzpatrick

B.Eng (Hons), B.A (Hons), (Non-Executive Director)

Mr Fitzpatrick has over 37 years in the financial services sector. He is Chairman of Pacific Current Group (formerly Treasury Group Limited), an incubator of fund management companies, and also Chairman of the Australian Football League. He also holds a number of other Non-Executive Directorships, including Infrastructure Capital Group, Carnegie Wave Energy Limited and Latam Autos Limited.

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. Mr Fitzpatrick was a director of a number of Hastings' managed investments, including Pacific Hydro Limited, Global

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Renewables Limited. Utilities of Australia. Australian Infrastructure Fund and Australia Development Group Pty Ltd (the holding company of Perth Airport).

Prior to establishing Hastings, Mr Fitzpatrick was a director of CS First Boston. He 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 Victorian Funds Management Corporation, 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 Bachelor of Arts with Honours from Oxford University where he was the 1975 Rhodes Scholar from Western Australia.

#### John Leggate

CBE, FREng (Non-Executive Director)

Mr Leggate is a highly experienced oil and gas and venture capital industry executive. He worked for over 27 years for BP. His key leadership roles were as President of the Azerbaijan International Oil Co, BP's Group Chief Information Officer and Group Vice President of BP's Global Supply Chain.

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

Mr Leggate has served as a Director on the Main Board and Audit Committee of London AIM listed Parkmead Group and Ogin, a venture backed Boston based wind turbine company. He has also served on the UK DTI Far Eastern Trade Advisory Board for four years and was advisor to the US House Science Committee on the potential threat from cyber security on critical national infrastructure and global trade.

Mr Leggate was awarded the CBE in recognition of his outstanding contribution and leadership to the

international digital technology agenda. Mr Leggate is a graduate of Glasgow University and is a Fellow of the Institute of Electrical Engineering and Fellow of the Royal Academy of Engineering.

#### **Grant Jonathan Mooney**

B.Bus, CA (Non-Executive Director and Company Secretary)

Mr Mooney is the principal of Perth-based corporate advisory firm Mooney & Partners, specialising in corporate compliance administration to public companies. Mr Mooney has gained extensive experience in the areas of corporate and project management since commencing Mooney & Partners in 1999.

His experience extends to advice on capital raisings, mergers and acquisitions and corporate governance. Currently, Mr Mooney serves as a Director to several ASX listed companies across a variety of industries including technology and resources. He is a Director of Phosphate Australia Limited, appointed 14 October 2008, Barra Resources Limited, appointed 29 November 2002, Carbine Resources Limited, appointed 16 January 2012 and Talga Resources Limited, appointed 20 February 2014. He was a Director of Nuheara Limited from 1 May 2007 to 4 June 2016 and Carbine Resources Limited from 16 January 2012 to 2 September 2014. Mr Mooney is also a member of the Institute of Chartered Accountants in Australia.

### 30 June 2016

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

Ord	dinary Shares	Options
Michael Fitzpatrick *	125,365,359	5,000,000
Dr Michael Edward Ottaviano **	39,790,000	-
Grant Jonathan Mooney ***	2,553,651	15,000,000
Jeffrey Harding ****	1,196,845	5,000,000
Kieran O'Brien	170,000	10,000,000
John Leggate	100,000	5,000,000

- Mr M Fitzpatrick is a Director of Log Creek Pty Ltd and therefore is deemed to have an interest in 125,365,359 ordinary shares and 5,000,000 options held by Log Creek Pty Ltd and 88 Green Ventures.
- Dr M E Ottaviano is deemed to have an interest in 390,000 ordinary shares held by his spouse, Amanda Ottaviano. Dr Ottaviano also has an interest in 4,400,000 ordinary shares as trustee for the "Wanderlust Trust".
- Mr G J Mooney is a Director of Mooney & Partners Pty Ltd and therefore is deemed to have an interest in 2,553,651 ordinary shares held by Mooney & Partners Pty Ltd.
- Mr J Harding is deemed to have an interest in 1,196,845 ordinary shares as trustee for the "The Harding Super Fund Account".

#### **Company Secretary**

The following people held the position of company secretary at the end of the financial year:

Mr Grant Jonathan Mooney and Mr Aidan John Flynn.

### **Principal Activities**

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

### **Operating Results**

The consolidated loss of the Consolidated Group for the financial year ended 30 June 2016 amounted to \$6,349,387 (2015: consolidated loss \$4,784,050).

### **Dividends**

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2016. No dividends were paid during the financial year.

#### **Review of Operations**

During this financial year, the Consolidated Group maintained its focus on the development and commercialisation of the CETO wave energy technology, primarily via the operation of the Perth Wave Energy Project (PWEP) on Garden Island, Western Australia.

During the financial year, the PWEP was the world's only operating grid-connected wave energy array. The Perth Wave Energy Project operated for over 14,500 cumulative hours across three CETO 5 units, setting a record for an 'in-ocean' technology. The operation of the Perth Wave Energy Project has allowed the Consolidated Group to take great steps forward towards commercialising its proprietary CETO technology and has paved the way for the development of the CETO 6.

Carnegie drew down milestone grant payments for the PWEP from the Federal Government's Emerging Renewables Program and the Federal Government's AusIndustry Clean Technology Innovation program.

- Emerging Renewables Program Carnegie drew down four milestone payments relating to the PWEP totalling \$1,021,578 for the commissioning, practical completion and operation of the project.
- Clean Technology Innovation Program Carnegie drew down the final milestone payment of \$63,404 for the construction of the desalination pilot plant.

The Company completed the concept design and continued the detailed design and site investigation work for the CETO 6 Project, which is the next stage in the CETO development and commercialisation. The Project comprises the design, construction, deployment and demonstration of the CETO 6 system at Garden Island, Western Australia. The Project is supported by a \$13 million grant from the Federal Government's Emerging Renewables Program and by a five-year \$20 million loan facility from the Commonwealth Bank of Australia. During the year, the second CETO 6 project milestone payment was successfully drawn down from the Australian Renewable Energy Agency.

During 2016, Carnegie made continued progress in the European markets, primarily in the United Kingdom through the 100% owned subsidiary, CWE UK and work related to Carnegies site at the government owned UK Wave Hub.

Carnegie made important progress into the microgrid market during the year through its engagement by the Mauritius Government to carry out design studies and a high penetration renewable energy road map for Mauritius. The work delivers Carnegie its first microgrid

### 30 June 2016

revenues of approximately \$800,000. Carnegie expanded its microgrid business through its acquisition of 35% of the Energy Made Clean (EMC) group. EMC is a leader in the design and construction of battery and solar systems. The business compliments the CETO wave energy technology and allows Carnegie to offer a full suite of renewable energy services and products to microgrid markets.

In Australia, following the signing of the world's first wave energy debt facility with a commercial bank, Carnegie announced plans to build its first Australian Microgrid project at Garden Island in WA. The project will integrate a 2MW solar array, a 2MW/0.5MWh battery, a control system and Carnegie's existing desalination plant and CETO 6 Project. It is subject to the completion of design, finance, approvals and off take.

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

- Received \$12 million net cash payment under the Australian Federal Government's Research and Development Tax Incentive.
- Received approximately \$882,798 for legacy gold mining royalty payment from Higginsville gold mining operations operated by MetalsX Limited.
- Welcomed UIL Limited (formerly Utilico investments Limited and Utilico Limited) as a new significant shareholder.
- Was awarded an Australian Research Council grant.
- Maintained and expanded the CETO Intellectual Property portfolio globally.

#### **Financial Position**

The net assets of the Consolidated Group have increased by \$3,707,629 to \$95,946,776 as at 30 June 2016. This is largely the result of the issuing of ordinary shares.

- On 27 November 2015, the Company raised \$6,513,012 by issuing 155,071,714 ordinary shares under a Share Purchase Plan to existing shareholders at an issue price of \$0.042 per share.
- On 27 November 2015, the Company raised \$1,059,030 by issuing 25,215,000 ordinary shares under a private placement to sophisticated investors predominantly who were existing shareholders at an issue price of \$0.042 per share.

#### **Significant Changes in the State of Affairs**

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

- On 2 June 2016, the Consolidated Group announced that it had received all of the CETO 5 Perth Project grant milestone payments after receiving the final \$935,080 payment bringing the Project total to \$13.1 million.
- ii On 30 May 2016, the Consolidated Group announced that UIL Limited (formerly Utilico) became a significant Shareholder after acquiring 100 per cent of Renewable Energy Holdings PLC's stake in the Company.
- iii On 22 April 2016, the Consolidated Group announced that it had conducted CETO 5 wave tank testing at the University of Plymouth's COAST facility in the United Kingdom.
- On 19 April 2016, the Consolidated Group announced that it had invested \$4.5 million to take a 35 per cent stake in profitable solar & battery microgrid business Energy Made Clean (EMC), with Carnegie's CEO Dr. Michael Ottaviano appointed as a member of the board of EMC.
- On 16 April 2016, the Consolidated Group announced that it was awarded an Australian Research Council Grant for its partnership with the University of Western Australia (UWA) on a \$1 million project, to research and develop more efficient anchoring systems for wave energy converters.
- vi On 10 December 2015, the Consolidated Group announced that it had been engaged for an \$800,000 contract from the Government of Mauritius, to prepare a renewable energy roadmap and design projects focused on high penetration renewable energy microgrids incorporating wave energy.
- On 19 November 2015, the Consolidated Group vii announced that it had completed Australia's first ever commercial bank-funded wave energy deal providing Carnegie with a \$21 million loan facility from the Commonwealth Bank.
- viii On 29 October 2015, the Consolidated Group announced that it signed a Memorandum of Understanding with Western Australian Government power utility - Western Power, to deliver the Garden Island Microgrid Project.
- On 16 October 2015, the Consolidated Group announced that it had completed the concept design phase for the CETO 6 project.
- On 14 October 2015, the Consolidated Group announced that it had received a \$12 million net cash research and development tax refund.
- On 7 September 2015, the Consolidated Group announced that it signed a Collaboration Agreement with the Mauritius Government to explore opportunities for commercial wave energy plants in Mauritius.
- On 4 September 2015, the Consolidated Group xii announced that it signed a Memorandum of Understanding with the Seychelles Government to investigate commercial wave and microgrid opportunities.

### 30 June 2016

### **Significant Events Subsequent to Year End**

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

On 1 July 2016, the Consolidated Group announced the successful deployment and commissioning of a wave monitoring buoy off the South coast of Mauritius, carried out in conjunction with its Mauritian Project partners.

With the exception of the above, no other matters or circumstances not otherwise dealt with in this report or the consolidated financial statements, have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of the Consolidated Group, the results of those operations or the state of affairs of the Consolidated Group in subsequent financial years.

#### **Proceedings on Behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

### **Future Developments, Prospects and Business Strategies**

During the year, the Company continued to successfully operate the grid connected Perth Wave Energy Project (PWEP) for the targeted 12 month operational period, prior to its decommissioning over the Australian summer. The Company continued detailed design work and site assessment work on the CETO 6 project at Garden Island Western Australia. The company entered the rapidly growing microgrid business through its partial acquisition of the Energy Made Clean group and an associated strategic alliance.

The Company's immediate focus is now on completing the design phase of the CETO 6 project and on continuing to grow the microgrid business. Work on the Microgrid business, in conjunction with EMC, will focus internationally on islands such as Mauritius and in Australia on off grid or fringe of grid projects. The Company will continue to progress non microgrid commercial opportunities for the CETO technology in particular in the European markets.

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

#### **Environmental Issues**

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

#### **Share Options**

At the date of this report, there were 40,000,000 options outstanding in respect of unissued ordinary shares to Directors and a further 80,950,000 options held by employees and ex-employees.

#### **Indemnifying Officer or Auditor**

During or since the year end, the Company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

- the Company has paid premiums to insure the Directors against certain risks they are exposed to as Directors of the Company; and
- the Company has agreed to grant Directors a right of access to certain Company Records.

The Company has paid premiums to insure each Director against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of a Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The amount of the premium was \$23,967.

#### **Remuneration Report - Audited**

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

#### **Remuneration Policy**

The remuneration policy of Carnegie Wave Energy Limited has been designed to align Director and Executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Consolidated Group's financial results.

30 June 2016

The Board of Carnegie Wave Energy Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best Executives and Directors to run and manage the Consolidated Group, as well as create goal congruence between Directors, Executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the Consolidated Group is as follows:

The remuneration policy, setting the terms and conditions for the Executive Directors and other senior executives. was developed by the Remuneration Committee after seeking professional advice from independent external consultants. During the year, the Company's Remuneration Committee benchmarked the Company's salaries payable to senior management by reference to independent industry data to ensure that the Company was consistent with prevailing market conditions. All executives receive a base annual salary (which is based on factors such as length of service and experience). The Remuneration Committee in consultation with the Board of Directors has chosen to adopt an equity based approach to remunerating executive staff and employees for the 2016 financial year and beyond. The Company utilised the Employee Share Option Plan as adopted by shareholders in November 2010 (re-affirmed by shareholders on 1 November 2013) as the mechanism by which options may be issued to executive management and staff to adequately incentivise these individuals.

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

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the past year's growth in shareholders' value over the financial year and by contrast with its peers and industry sector. All incentives must be linked to predetermined performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

The Board policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The Executive Directors determine payments to the Non-Executive Directors and review their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for Non-Executive Directors are not linked to the performance of the Consolidated Group.

### 30 June 2016

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

During the year, the Company focused its efforts on both the continuing commercialisation of its CETO wave energy technology as well as commercial opportunities for the deployment of stand-alone CETO wave energy projects. Additionally, the Company began the development of a commercial solar/battery focused microgrid business.

Over the last 12 months the Company completed its spend on the Perth Wave Energy Project, continued it's spend on the CETO 6 project, invested in microgrid EPC, Energy Made Clean, and initiated the development of a microgrid project pipeline. This spend was partially offset by the Company drawing down four times from the federal government grants (totalling \$1,021,578) from the Australian Renewable Energy Agency and once from the Federal Government's AusIndustry Clean Technology Innovation program for \$63,404 as well as receiving a net R&D tax incentive cash payment of approximately \$12 million. The Company's share price has remained impacted by the continued policy uncertainty in relevant markets. In spite of this, the Company has maintained and increased its ability to continue the commercialisation of CETO and the development of its microgrid business.

	2012 \$	2013 \$	<b>2014</b> \$	<b>2015</b> \$	2016 \$
Revenue	430,109	351,917	1,913,452	1,716,516	1,729,797
Net loss after tax	(4,521,876)	(3,303,572)	(4,176,921)	(4,784,050)	(6,349,387)
Share price at year end	0.027	0.030	0.050	0.045	0.030

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

#### Details of Remuneration for Year Ended 30 June 2016

		Actual rewards rece in the period	ived	Actuarial v potential fu	Performance	
	Cash salary, leave paid and fees Non Cash Benefits		Post Employment Benefits - Super	Other long term benefits		Share based payments
	\$	\$	\$	\$	\$	\$
Jeffrey Harding	115,115	-	10,935	-	-	-
Mike Fitzpatrick	57,500	-	2,731	_	-	_
John Leggate	86,659	-	-	-	-	-
Grant Mooney *	153,500	-	5,462	-	-	-
Kieran O'Brien	137,737	-	-	-	-	-
Michael Ottaviano	672,308	56,112**	19,307	27,726	-	-
Greg Allen	261,500	-	22,942	8,113	23,830	-
Total	1,484,319	56,112	61,377	35,839	23,830	-

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

Includes some relocation costs for the Managing Directors secondment to the UK from December 2015 to September 2016.



30 June 2016

#### Remuneration Report - Audited (continued)

#### **Details of Remuneration for Year Ended 30 June 2015**

		Actual rewards rece	ived	Actuarial v potential fu		
	Short-ter	m benefits				
	Cash salary, leave paid and fees	Non Cash Benefits	Post Employment Benefits - Super	Other long term benefits	Share based payments	Performance
	\$	\$	\$	\$	\$	\$
Jeffrey Harding	59,945	-	5,694	-	-	-
Mike Fitzpatrick	57,500	-	-	-	-	-
John Leggate	80,571	-	-	-	-	-
Grant Mooney *	168,554	-	6,892	-	-	-
Kieran O'Brien	143,585	-	-	-	-	-
Michael Ottaviano	639,898	17,076	18,783	15,579	-	-
Greg Allen	249,999	-	21,850	9,356	80,226	-
Total	1,400,052	17,076	53,219	24,935	80,226	_

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

#### Performance Income as a Proportion of Total Remuneration

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

#### Options Issued as Part of Remuneration for the Year Ended 30 June 2016

No options were issued to Directors during the financial year.

### **Employment Contracts Of Directors**

The employment conditions of the Non-Executive Directors, Executive Director, Kieran O'Brien, the Chairman, Jeff Harding and Managing Director, Michael Ottaviano are formalised in Service Contracts. The Managing Director, Michael Ottaviano, is contracted under a contract for \$691,616 per annum including superannuation plus a fully serviced company vehicle. The Executive Director, Kieran O'Brien, is under a contract for €86,400 per annum. Non-Executive Director, John Leggate, is under a contract for €41,250 per annum. Non-Executive Directors, Michael Fitzpatrick and Grant Mooney, are under a contract for \$57,500 plus superannuation per annum. The above contracts remain effective from 1 July 2016.

Jeffrey Harding was appointed as Chairman on 11 May 2015. As the Chairman, he receives a base salary of \$110,000 per annum. This remains effective from 1 July 2016.

There is a contract for service between the Company and Mooney & Partners Pty Ltd, an entity associated with Grant Mooney, commencing from 9 October 2009 for an initial period of 3 years and subsequently on a rolling basis, whereby Mr Mooney provides Company Secretarial services and receives a fee of \$96,000 per annum (exclusive of GST). As a Non-Executive Director he receives a base salary of \$57,500 plus superannuation per annum, remaining effective from 1 July 2016.

The employment contracts for Grant Mooney and Michael Ottaviano stipulate three months resignation period. The Company may terminate an employment contract without cause by providing three months written notice or making payment in lieu of notice, based on the individual's annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time. Termination payments are in accordance with Corporation Act 2001.

### 30 June 2016

#### **Non-Audit Services**

The external auditors were not engaged for non-audit services during the financial year ended 30 June 2016.

#### **Auditor's Independence Declaration**

The auditor's independence declaration for the year ended 30 June 2016 has been received and can be found on page 13.

#### **Directors' Meetings**

There were 7 Directors' meetings held during the financial year ended 30 June 2016. Attendances were as follows:

	Number Attended						
_	Dire	ectors	Audit Committee	Remuneration Committee			
Director	No. Meetings attended	No. Meetings held during time in office					
Jeffrey Harding	7	7	2	NA			
Dr Michael E Ottaviano	7	7	NA	NA			
Grant Mooney	6	7	2	2			
Kieran O'Brien	7	7	NA	2			
John Leggate	6	7	NA	2			
Michael Fitzpatrick	7	7	2	NA			

There were a total of 10 circular resolutions passed by the Board of Directors during the financial year.

Signed on 31st August 2016 in accordance with a resolution of the Board of Directors.

Dr Michael Edward Ottaviano Managing Director

Grant Jonathan Mooney

Director

#### **Auditor's Independence Declaration**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Carnegie Wave Energy Ltd for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Crowe Horwath Perth Managing Director

Cyrus Patell Partner



Signed at Perth, 31 August 2016

Crowe Howath Pert

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# Statement of Comprehensive Income

For Year Ended 30 June 2016

Consolidated Statement of Profit and Loss and Other Comprehensive Income for Year Ended 30 June 2016

	Note	Consolidated Group	
		2016	2015
		\$	\$
Sales revenue	2	200,375	_
Royalty income	2	882,798	1,417,715
Share of profits of associate accounted for using the equity method	3	371,892	_
Other income	2	274,732	298,802
Depreciation expense		(117,072)	(109,015)
Occupancy expense		(285,290)	(328,109)
Consultancy expenses		(266,719)	(260,991)
Research expenses		(134,386)	(236,064)
Employee and Directors expenses		(3,002,133)	(2,104,465)
Employee Share based payments	29	(598,144)	(771,450)
Finance costs		(1,448,381)	(1,251,806)
Company secretarial expenses		(96,000)	(96,000)
Administrative expenses		(2,113,126)	(1,321,533)
Other expenses from ordinary activities		(17,933)	(21,134)
Loss before income tax	4	(6,349,387)	(4,784,050)
Income tax benefit/(expense)	5	-	_
Loss for the year		(6,349,387)	(4,784,050)
Other comprehensive income			
Exchange differences on translating foreign controlled entities and foreign currencies		487	(84,332)
Income tax relating to components of other comprehensive income		-	_
Total comprehensive loss for the year		(6,348,900)	(4,868,382)
Loss attributable to:			
Members of the parent entity		(6,349,387)	(4,784,050)
Total comprehensive loss attributable to:			
Members of the parent entity		(6,348,900)	(4,868,382)
Earnings per share			
Basic loss per share (cents per share)	8	(0.337)	(0.275)
	-	, , , ,	, , , , ,
Diluted loss per share (cents per share)	8	(0.337)	(0.275)

The accompanying notes form part of these financial statements.

## Statement of Financial Position

### For Year Ended 30 June 2016

Consolidated Statement of Financial Position as at 30 June 2016

ASSETS		Note	Cons 2016 \$	olidated Group 2015 \$
Cash and cash equivalents         9         8,200,500         4,724,794           Trade and other receivables         10         723,737         1,621,009           Other assets         16         34,600         57,807           TOTAL CURRENT ASSETS         8,958,837         6,403,610           NON-CURRENT ASSETS         8         558,837         6,403,610           Trade and other receivables         10         460,000         351,017           Available for sale financial assets         11         12,414         12,414           Other financial assets         18         3,690,000            Investment accounted for using the equity method         13         5,047,919            Property, plant and equipment         14         494,724         402,488           Intagible assets         15         83,998,065         90,102,248           Other non-current assets         16         67,552         153,209           Other non-current assets         16         67,552         153,209           TOTAL ASSETS         93,770,674         91,021,457           TOTAL CURRENT ASSETS         102,729,511         97425,067           Total ASSETS         19         427,095         369,136	ASSETS			
Trade and other receivables         10         723,737         1,621,009           Other assets         16         34,600         57,807           TOTAL CURRENT ASSETS         8,958,837         6,403,610           NON-CURRENT ASSETS         """"""""""""""""""""""""""""""""""""	CURRENT ASSETS			
Other assets         16         34,600         57,807           TOTAL CURRENT ASSETS         8,958,837         6,403,610           NON-CURRENT ASSETS         3         6,403,610           Trade and other receivables         10         460,000         351,017           Available for sale financial assets         11         12,414         12,414           Other financial assets         18         3,690,000         -           Investment accounted for using the equity method         13         5,047,919         -           Property, plant and equipment         14         494,724         402,488           Intangible assets         15         83,998,065         90,02,248           Other non-current assets         16         67,552         153,290           TOTAL NON-CURRENT ASSETS         93,770,674         91,021,487           TOTAL ASSETS         102,729,511         97,425,067           CURRENT LIABILITIES         3         70,902         70,706           Trade and other payables         17         2,691,965         979,297           Short-term provisions         19         427,096         369,135           Total Current Liabilities         3,119,061         1,348,432           NON-Current Liabilities <td>Cash and cash equivalents</td> <td>9</td> <td>8,200,500</td> <td>4,724,794</td>	Cash and cash equivalents	9	8,200,500	4,724,794
TOTAL CURRENT ASSETS         8,958,837         6,403,610           NON-CURRENT ASSETS         10         460,000         351,017           Available for sale financial assets         11         12,414         12,414           Other financial assets         18         3,690,000         -           Investment accounted for using the equity method         13         5,047,919         -           Property, plant and equipment         14         494,724         402,488           Intangible assets         15         83,998,065         90,02,248           Other non-current assets         16         67,552         153,290           TOTAL NON-CURRENT ASSETS         93,770,674         91,021,487           TOTAL ASSETS         102,729,511         974,250,60           EURRENT LIABILITIES         200,729,511         974,250,60           Trade and other payables         17         2,691,965         979,297           Short-term provisions         19         427,096         369,135           NON-CURRENT LIABILITIES         3,119,061         1,348,432           Trade and other payables         17         33,169         47,252           Long-term provision         19         20,470         229,155           Long-term p	Trade and other receivables	10	723,737	1,621,009
NON-CURRENT ASSETS         Incompany of the process of the proce	Other assets	16	34,600	57,807
Trade and other receivables         10         460,000         351,017           Available for sale financial assets         11         12,414         12,414           Other financial assets         18         3,690,000         -           Investment accounted for using the equity method         13         5,047,919         -           Property, plant and equipment         14         494,724         402,488           Intangible assets         15         83,998,065         90,102,248           Other non-current assets         16         67,552         153,290           TOTAL NON-CURRENT ASSETS         93,770,674         91,021,457           TOTAL ASSETS         102,729,511         97,425,067           LABILITIES         102,729,511         97425,067           Trade and other payables         17         2,691,965         979,297           Short-term provisions         19         427,096         369,135           TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         3,19,061         47,252           Long-term provision         19         207,470         229,155           Long-term provision         19         207,470         229,155           Long-term bo	TOTAL CURRENT ASSETS		8,958,837	6,403,610
Available for sale financial assets         11         12,414         12,414           Other financial assets         18         3,690,000         -           Investment accounted for using the equity method         13         5,047,919         -           Property, plant and equipment         14         494,724         402,488           Intangible assets         15         83,998,065         90,102,248           Other non-current assets         16         67,552         153,290           TOTAL NON-CURRENT ASSETS         93,770,674         91,021,457           TOTAL ASSETS         102,729,511         97,425,067           LIABILITIES           Trade and other payables         17         2,691,965         979,297           Short-term provisions         19         427,096         369,135           TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         17         33,169         47,252           Long-term provision         19         207,470         229,155           Long-term provision         19         207,470         229,155           Long-term provision         19         3,63,674         3,837,488           TOTAL NON-CURRENT LIABILITIES	NON-CURRENT ASSETS			
Other financial assets         18         3,690,000         -           Investment accounted for using the equity method         13         5,047,919         -           Property, plant and equipment         14         494,724         402,488           Intangible assets         15         83,998,065         90,102,248           Other non-current assets         16         67,552         153,290           TOTAL NON-CURRENT ASSETS         93,770,674         91,021,457           TOTAL ASSETS         102,729,511         97,425,067           LIABILITIES           Trade and other payables         17         2,691,965         979,297           Short-term provisions         19         427,096         369,135           TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         3,119,061         1,348,432           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147	Trade and other receivables	10	460,000	351,017
Investment accounted for using the equity method         13         5,047,919         -           Property, plant and equipment         14         494,724         402,488           Intangible assets         15         83,998,065         90,102,248           Other non-current assets         16         67,552         153,290           TOTAL NON-CURRENT ASSETS         93,770,674         91,021,457           TOTAL ASSETS         102,729,511         97,425,067           LIABILITIES           Trade and other payables         17         2,691,965         979,297           Short-term provisions         19         427,096         369,135           TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         3,119,061         1,348,432           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY         Issued capital         20         154,019,255         144,940,6	Available for sale financial assets	11	12,414	12,414
Property, plant and equipment         14         494,724         402,488           Intangible assets         15         83,998,065         90,102,248           Other non-current assets         16         67,552         153,290           TOTAL NON-CURRENT ASSETS         93,770,674         91,021,457           TOTAL ASSETS         102,729,511         97,425,067           LIABILITIES           Trade and other payables         17         2,691,965         979,297           Short-term provisions         19         427,096         369,135           TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         17         33,169         47,252           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses<	Other financial assets	18	3,690,000	-
Intangible assets         15         83,998,065         90,102,248           Other non-current assets         16         67,552         153,290           TOTAL NON-CURRENT ASSETS         93,770,674         91,021,457           TOTAL ASSETS         102,729,511         97,425,067           LIABILITIES           CURRENT LIABILITIES           Trade and other payables         17         2,691,965         979,297           Short-term provisions         19         427,096         369,135           TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         17         33,169         47,252           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY         15         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	Investment accounted for using the equity method	13	5,047,919	_
Other non-current assets         16         67,552         153,290           TOTAL NON-CURRENT ASSETS         93,770,674         91,021,457           TOTAL ASSETS         102,729,511         97,425,067           LIABILITIES           CURRENT LIABILITIES           Trade and other payables         17         2,691,965         979,297           Short-term provisions         19         427,096         369,135           TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         17         33,169         47,252           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         3,663,674         3,837,488           TOTAL SEETS         95,946,776         92,239,147           EQUITY           Issued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,0565,270)	Property, plant and equipment	14	494,724	402,488
TOTAL NON-CURRENT ASSETS         93,770,674         91,021,457           TOTAL ASSETS         102,729,511         97,425,067           LIABILITIES           CURRENT LIABILITIES           Trade and other payables         17         2,691,965         979,297           Short-term provisions         19         427,096         369,135           TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         17         33,169         47,252           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY           Issued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	Intangible assets	15	83,998,065	90,102,248
TOTAL ASSETS         102,729,511         97,425,067           LIABILITIES           CURRENT LIABILITIES           Trade and other payables         17         2,691,965         979,297           Short-term provisions         19         427,096         369,135           TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         17         33,169         47,252           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY           Issued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	Other non-current assets	16	67,552	153,290
LIABILITIES           CURRENT LIABILITIES           Trade and other payables         17         2.691,965         979,297           Short-term provisions         19         427,096         369,135           TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         17         33,169         47,252           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY           Issued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	TOTAL NON-CURRENT ASSETS		93,770,674	91,021,457
CURRENT LIABILITIES           Trade and other payables         17         2,691,965         979,297           Short-term provisions         19         427,096         369,135           TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         7         33,169         47,252           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY           Issued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	TOTAL ASSETS		102,729,511	97,425,067
Trade and other payables         17         2,691,965         979,297           Short-term provisions         19         427,096         369,135           TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         17         33,169         47,252           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY           Issued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	LIABILITIES			
Short-term provisions         19         427,096         369,135           TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         17         33,169         47,252           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY           Issued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	CURRENT LIABILITIES			
TOTAL CURRENT LIABILITIES         3,119,061         1,348,432           NON-CURRENT LIABILITIES         17         33,169         47,252           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY           Issued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	Trade and other payables	17	2,691,965	979,297
NON-CURRENT LIABILITIES           Trade and other payables         17         33,169         47,252           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	Short-term provisions	19	427,096	369,135
Trade and other payables         17         33,169         47,252           Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY           Issued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	TOTAL CURRENT LIABILITIES		3,119,061	1,348,432
Long-term provision         19         207,470         229,155           Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY           Issued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	NON-CURRENT LIABILITIES			
Long-term borrowings         18         3,423,035         3,561,081           TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY         Ssued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	Trade and other payables	17	33,169	47,252
TOTAL NON-CURRENT LIABILITIES         3,663,674         3,837,488           TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY         Issued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	Long-term provision	19	207,470	229,155
TOTAL LIABILITIES         6,782,735         5,185,920           NET ASSETS         95,946,776         92,239,147           EQUITY           Issued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	Long-term borrowings	18	3,423,035	3,561,081
NET ASSETS         95,946,776         92,239,147           EQUITY         Issued capital         20         154,019,255         144,940,603           Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	TOTAL NON-CURRENT LIABILITIES		3,663,674	3,837,488
EQUITY       Issued capital     20     154,019,255     144,940,603       Reserves     21     3,960,346     7,863,814       Accumulated losses     (62,032,825)     (60,565,270)	TOTAL LIABILITIES		6,782,735	5,185,920
Issued capital       20       154,019,255       144,940,603         Reserves       21       3,960,346       7,863,814         Accumulated losses       (62,032,825)       (60,565,270)	NET ASSETS		95,946,776	92,239,147
Reserves         21         3,960,346         7,863,814           Accumulated losses         (62,032,825)         (60,565,270)	EQUITY			
Accumulated losses (62,032,825) (60,565,270)	Issued capital	20	154,019,255	144,940,603
	Reserves	21	3,960,346	7,863,814
TOTAL EQUITY 95,946,776 92,239,147	Accumulated losses		(62,032,825)	(60,565,270)
	TOTAL EQUITY		95,946,776	92,239,147

The accompanying notes form part of these financial statements.

# Statement of Changes in Equity

For Year Ended 30 June 2016

Consolidated Statement of Changes in Equity for Year Ended 30 June 2016

Consolidated Group	Note	Issued Capital	Accumulated Losses	Foreign Currency Reserve	Option Reserve	Total
Balance at <i>1.7.2014</i>		142,656,965	(61,351,071)	86,012	12,737,413	94,129,319
Comprehensive loss						
Loss for the year		-	(4,784,050)	-	-	(4,784,050)
Other comprehensive income		-	_	(84,332)	-	(84,332)
Total comprehensive loss for the year		-	(4,784,050)	(84,332)	-	(4,868,382)
Transactions with owners						
Share capital issued during the year		2,211,960	_	-	_	2,211,960
Capital raising costs		(5,200)	-	-	_	(5,200)
Equity portion of convertible note		-	-	-	-	_
Share based payment expense		76,878	_	-	694,572	771,450
Share based payment expired unexercised		-	5,569,851		(5,569,851)	-
Total transactions with owners		2,283,638	5,569,851	-	(4,875,279)	2,978,210
Balance at 30.6.2015	-	144,940,603	(60,565,270)	1,680	7,862,134	92,239,147
Balance at <i>1.7.2015</i>		144,940,603	(60,565,270)	1,680	7,862,134	92,239,147
Comprehensive loss						
Loss for the year		-	(6,349,387)	-	-	(6,402,812)
Other comprehensive income		-	_	487	-	487
Total comprehensive loss for the year		-	(6,349,387)	487	-	(6,402,325)
Transactions with owners						
Share capital issued during the year		9,183,376	-	-	-	9,183,376
Capital raising costs		(104,724)	-	-	-	(104,724)
Equity portion of convertible note		-	-	-	379,733	379,733
Share based payment expense		-	-	-	598,144	598,144
Share based payment expired unexercised		-	4,881,832		(4,881,832)	_
Total transactions with owners	-	9,078,652	4,881,832	-	(3,903,955)	10,056,529
Balance at <i>30.6.2016</i>		154,019,255	(62,032,825)	2,167	3,958,179	95,946,776

The accompanying notes form part of these financial statements.

# Statement of Cash Flows

### For Year Ended 30 June 2016

Consolidated Statement of Cash Flows for Year Ended 30 June 2016

CASH FLOWS FROM OPERATING ACTIVITIES         2016           Receipts from customers         142,218         -           Receipts from Royalties         1,034,883         1,341,678           Interest received         280,308         231,564           Interest paid         (13,027)         (10,043)           Payments to suppliers and employees         (10,091,839)         (8,730,247)           Receipts from R6D Tax Rebate         14,049,871         3,963,327           Receipts from Government grant funding         1,284,982         4,312,663           Net cash provided by operating activities         25         6,687,396         1,108,942           CASH FLOWS FROM INVESTING ACTIVITIES         3,574,778         (10,945,137)           Purchase of property, plant and equipment         2,382,333         (10,899,77)           Proceeds from sale of property, plant and equipment         2,382,333         (10,899,77)           Payments for investment         (3,176,027)         -           Net cash (used in) investing activities         (3,690,000)         (1,051,050) <t< th=""><th></th><th>Note</th><th>Conso</th><th colspan="2"><b>Consolidated Group</b></th></t<>		Note	Conso	<b>Consolidated Group</b>	
CASH FLOWS FROM OPERATING ACTIVITIES         1           Receipts from customers         142,218         -           Receipts from Royalties         1,034,883         1,341,678           Interest received         280,308         231,564           Interest paid         (10,091,839)         (8,730,247)           Payments to suppliers and employees         (10,091,839)         (8,730,247)           Receipts from R&D Tax Rebate         14,049,871         3,963,327           Receipts from Government grant funding         1,284,982         4,312,663           Net cash provided by operating activities         25         6,687,396         1,108,942           CASH FLOWS FROM INVESTING ACTIVITIES         25         6,687,396         1,108,942           Payments for development of asset         (3,574,778)         (10,945,137)           Purchase of property, plant and equipment         238,233)         (108,997)           Proceeds from sale of property, plant and equipment         3,084         238,233)           Payments for investment         (3,176,027)         -           Net cash (used in) investing activities         (10,679,038)         (11,051,050)           CASH FLOWS FROM FINANCING ACTIVITIES         7,467,306         594,800           Net proceeds from Issue of Shares         7,46			2016	2015	
Receipts from customers         142,218         -           Receipts from Royalties         1,034,883         1,341,678           Interest received         280,308         231,564           Interest paid         (13,027)         (10,043)           Payments to suppliers and employees         (10,091,839)         (8,730,247)           Receipts from R&D Tax Rebate         14,049,871         3,963,327           Receipts from Government grant funding         1,284,982         4,312,663           Net cash provided by operating activities         25         6,687,396         1,108,942           CASH FLOWS FROM INVESTING ACTIVITIES         Payments for development of asset         (3,574,778)         (10,945,137)           Purchase of property, plant and equipment         (238,233)         (108,997)           Proceeds from sale of property, plant and equipment         -         3,084           Payments for investment         (3,176,027)         -           Net cash (used in) investing activities         (10,679,038)         (11,051,050)           CASH FLOWS FROM FINANCING ACTIVITIES         7,467,306         594,800           Net proceeds from Issue of Shares         7,467,306         594,800           Net cash provided by financing activities         7,467,306         594,800			\$	\$	
Receipts from Royalties         1,034,883         1,341,678           Interest received         280,308         231,564           Interest paid         (13,027)         (10,043)           Payments to suppliers and employees         (10,091,839)         (8,730,247)           Receipts from R&D Tax Rebate         14,049,871         3,963,327           Receipts from Government grant funding         1,284,982         4,312,663           Net cash provided by operating activities         25         6,687,396         1,108,942           CASH FLOWS FROM INVESTING ACTIVITIES         25         6,687,396         1,108,942           Payments for development of asset         (3,574,778)         (10,945,137)           Purchase of property, plant and equipment         238,233         (108,997)           Proceeds from sale of property, plant and equipment         -         3,084           Payments for jurchase of financial assets         (3,690,000)         -           Payments for investment         (3,176,027)         -           Net cash (used in) investing activities         (10,679,038)         (11,051,050)           CASH FLOWS FROM FINANCING ACTIVITIES         (10,679,038)         594,800           Net cash provided by financing activities         7,467,306         594,800           Net (de	CASH FLOWS FROM OPERATING ACTIVITIES			-	
Interest received         280,308         231,564           Interest paid         (13,027)         (10,043)           Payments to suppliers and employees         (10,091,839)         (8,730,247)           Receipts from RbD Tax Rebate         14,049,871         3,963,327           Receipts from Government grant funding         1,284,982         4,312,663           Net cash provided by operating activities         25         6,687,396         1,108,942           CASH FLOWS FROM INVESTING ACTIVITIES         25         6,687,396         1,108,942           Payments for development of asset         (3,574,778)         (10,945,137)           Purchase of property, plant and equipment         238,233         (108,997)           Proceeds from sale of property, plant and equipment         3,084           Payments for purchase of financial assets         (3,690,000)         -           Payments for investment         (3,176,027)         -           Net cash (used in) investing activities         (10,679,038)         (11,051,050)           CASH FLOWS FROM FINANCING ACTIVITIES         T,467,306         594,800           Net cash provided by financing activities         7,467,306         594,800           Net cash provided by financing activities         7,467,306         594,800           Net (decrease	Receipts from customers		142,218	_	
Interest paid         (13,027)         (10,043)           Payments to suppliers and employees         (10,091,839)         (8,730,247)           Receipts from R&D Tax Rebate         14,049,871         3,963,327           Receipts from Government grant funding         1,284,982         4,312,663           Net cash provided by operating activities         25         6,687,396         1,108,942           CASH FLOWS FROM INVESTING ACTIVITIES         4,3574,778         (10,945,137)           Payments for development of asset         (3,574,778)         (10,945,137)           Purchase of property, plant and equipment         238,233         (108,997)           Proceeds from sale of property, plant and equipment         -3,084           Payments for jurchase of financial assets         (3,690,000)         -           Payments for investment         (3,176,027)         -           Net cash (used in) investing activities         (10,679,038)         (11,051,050)           CASH FLOWS FROM FINANCING ACTIVITIES         7,467,306         594,800           Net cash provided by financing activities         7,467,306         594,800           Net (decrease)/increase in cash held         3,475,664         (9,347,308)           Cash and cash equivalents at beginning of financial year         4,724,794         14,177,509 <t< td=""><td>Receipts from Royalties</td><td></td><td>1,034,883</td><td>1,341,678</td></t<>	Receipts from Royalties		1,034,883	1,341,678	
Payments to suppliers and employees         (10,091,839)         (8,730,247)           Receipts from R&D Tax Rebate         14,049,871         3,963,327           Receipts from Government grant funding         1,284,982         4,312,663           Net cash provided by operating activities         25         6,687,396         1,108,942           CASH FLOWS FROM INVESTING ACTIVITIES         Payments for development of asset         (3,574,778)         (10,945,137)           Purchase of property, plant and equipment         (238,233)         (108,997)           Proceeds from sale of property, plant and equipment         -         3,084           Payments for investment         (3,176,027)         -           Net cash (used in) investing activities         (10,679,038)         (11,051,050)           CASH FLOWS FROM FINANCING ACTIVITIES         7,467,306         594,800           Net cash provided by financing activities         7,467,306         594,800           Net (decrease)/increase in cash held         3,475,664         (9,347,308)           Cash and cash equivalents at beginning of financial year         4,724,794         14,177,509           Effect of exchange rate fluctuations on cash held         4,024,794         105,407	Interest received		280,308	231,564	
Receipts from R&D Tax Rebate         14,049,871         3,963,327           Receipts from Government grant funding         1,284,982         4,312,663           Net cash provided by operating activities         25         6,687,396         1,108,942           CASH FLOWS FROM INVESTING ACTIVITIES         Payments for development of asset         (3,574,778)         (10,945,137)           Purchase of property, plant and equipment         (238,233)         (108,997)           Proceeds from sale of property, plant and equipment         -         3,084           Payments for purchase of financial assets         (3,690,000)         -           Payments for investment         (3,176,027)         -           Net cash (used in) investing activities         (10,679,038)         (11,051,050)           CASH FLOWS FROM FINANCING ACTIVITIES         Net proceeds from Issue of Shares         7,467,306         594,800           Net cash provided by financing activities         7,467,306         594,800           Net (decrease)/increase in cash held         3,475,664         (9,347,308)           Cash and cash equivalents at beginning of financial year         4,724,794         14,177,509           Effect of exchange rate fluctuations on cash held         42         (105,407)	Interest paid		(13,027)	(10,043)	
Receipts from Government grant funding         1,284,982         4,312,663           Net cash provided by operating activities         25         6,687,396         1,108,942           CASH FLOWS FROM INVESTING ACTIVITIES           Payments for development of asset         (3,574,778)         (10,945,137)           Purchase of property, plant and equipment         (238,233)         (108,997)           Proceeds from sale of property, plant and equipment         -         3,084           Payments for purchase of financial assets         (3,690,000)         -           Payments for investment         (3,176,027)         -           Net cash (used in) investing activities         (10,679,038)         (11,051,050)           CASH FLOWS FROM FINANCING ACTIVITIES         T,467,306         594,800           Net proceeds from Issue of Shares         7,467,306         594,800           Net cash provided by financing activities         7,467,306         594,800           Net (decrease)/increase in cash held         3,475,664         (9,347,308)           Cash and cash equivalents at beginning of financial year         4,724,794         14,177,509           Effect of exchange rate fluctuations on cash held         42         (105,407)	Payments to suppliers and employees		(10,091,839)	(8,730,247)	
Net cash provided by operating activities         25         6,687,396         1,108,942           CASH FLOWS FROM INVESTING ACTIVITIES           Payments for development of asset         (3,574,778)         (10,945,137)           Purchase of property, plant and equipment         (238,233)         (108,997)           Proceeds from sale of property, plant and equipment         -         3,084           Payments for purchase of financial assets         (3,690,000)         -           Payments for investment         (3,176,027)         -           Net cash (used in) investing activities         (10,679,038)         (11,051,050)           CASH FLOWS FROM FINANCING ACTIVITIES         Net proceeds from Issue of Shares         7,467,306         594,800           Net cash provided by financing activities         7,467,306         594,800           Net (decrease)/increase in cash held         3,475,664         (9,347,308)           Cash and cash equivalents at beginning of financial year         4,724,794         14,177,509           Effect of exchange rate fluctuations on cash held         42         (105,407)	Receipts from R&D Tax Rebate		14,049,871	3,963,327	
Payments for development of asset (3,574,778) (10,945,137)  Purchase of property, plant and equipment (238,233) (108,997)  Proceeds from sale of property, plant and equipment - 3,084  Payments for purchase of financial assets (3,690,000) -  Payments for investment (3,176,027) -  Net cash (used in) investing activities (10,679,038) (11,051,050)  CASH FLOWS FROM FINANCING ACTIVITIES  Net proceeds from Issue of Shares 7,467,306 594,800  Net cash provided by financing activities 7,467,306 594,800  Net (decrease)/increase in cash held 3,475,664 (9,347,308)  Cash and cash equivalents at beginning of financial year 4,724,794 14,177,509  Effect of exchange rate fluctuations on cash held 42 (105,407)	Receipts from Government grant funding		1,284,982	4,312,663	
Payments for development of asset  Purchase of property, plant and equipment  Proceeds from sale of property, plant and equipment  Payments for purchase of financial assets  Payments for purchase of financial assets  (3,690,000)  Payments for investment  (3,176,027)  Net cash (used in) investing activities  (10,679,038)  CASH FLOWS FROM FINANCING ACTIVITIES  Net proceeds from Issue of Shares  7,467,306  Seq. 800  Net (decrease)/increase in cash held  Cash and cash equivalents at beginning of financial year  Effect of exchange rate fluctuations on cash held  (10,945,137)	Net cash provided by operating activities	25	6,687,396	1,108,942	
Purchase of property, plant and equipment (238,233) (108,997)  Proceeds from sale of property, plant and equipment - 3,084  Payments for purchase of financial assets (3,690,000) -  Payments for investment (3,176,027) -  Net cash (used in) investing activities (10,679,038) (11,051,050)  CASH FLOWS FROM FINANCING ACTIVITIES  Net proceeds from Issue of Shares 7,467,306 594,800  Net cash provided by financing activities 7,467,306 594,800  Net (decrease)/increase in cash held 3,475,664 (9,347,308)  Cash and cash equivalents at beginning of financial year 4,724,794 14,177,509  Effect of exchange rate fluctuations on cash held 42 (105,407)	CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment - 3,084 Payments for purchase of financial assets (3,690,000) - Payments for investment (3,176,027) - Net cash (used in) investing activities (10,679,038) (11,051,050)  CASH FLOWS FROM FINANCING ACTIVITIES  Net proceeds from Issue of Shares 7,467,306 594,800  Net cash provided by financing activities 7,467,306 594,800  Net (decrease)/increase in cash held 3,475,664 (9,347,308)  Cash and cash equivalents at beginning of financial year 4,724,794 14,177,509  Effect of exchange rate fluctuations on cash held 42 (105,407)	Payments for development of asset		(3,574,778)	(10,945,137)	
Payments for purchase of financial assets (3,690,000) - Payments for investment (3,176,027) - Net cash (used in) investing activities (10,679,038) (11,051,050) CASH FLOWS FROM FINANCING ACTIVITIES  Net proceeds from Issue of Shares 7,467,306 594,800 Net cash provided by financing activities 7,467,306 594,800 Net (decrease)/increase in cash held 3,475,664 (9,347,308) Cash and cash equivalents at beginning of financial year 4,724,794 14,177,509 Effect of exchange rate fluctuations on cash held 42 (105,407)	Purchase of property, plant and equipment		(238,233)	(108,997)	
Payments for investment (3,176,027) -  Net cash (used in) investing activities (10,679,038) (11,051,050)  CASH FLOWS FROM FINANCING ACTIVITIES  Net proceeds from Issue of Shares 7,467,306 594,800  Net cash provided by financing activities 7,467,306 594,800  Net (decrease)/increase in cash held 3,475,664 (9,347,308)  Cash and cash equivalents at beginning of financial year 4,724,794 14,177,509  Effect of exchange rate fluctuations on cash held 42 (105,407)	Proceeds from sale of property, plant and equipment		-	3,084	
Net cash (used in) investing activities (10,679,038) (11,051,050)  CASH FLOWS FROM FINANCING ACTIVITIES  Net proceeds from Issue of Shares 7,467,306 594,800  Net cash provided by financing activities 7,467,306 594,800  Net (decrease)/increase in cash held 3,475,664 (9,347,308)  Cash and cash equivalents at beginning of financial year 4,724,794 14,177,509  Effect of exchange rate fluctuations on cash held 42 (105,407)	Payments for purchase of financial assets		(3,690,000)	-	
CASH FLOWS FROM FINANCING ACTIVITIES  Net proceeds from Issue of Shares  7,467,306  594,800  Net cash provided by financing activities  7,467,306  594,800  Net (decrease)/increase in cash held  3,475,664  (9,347,308)  Cash and cash equivalents at beginning of financial year  4,724,794  41,177,509  Effect of exchange rate fluctuations on cash held  42  (105,407)	Payments for investment		(3,176,027)	-	
Net proceeds from Issue of Shares7,467,306594,800Net cash provided by financing activities7,467,306594,800Net (decrease)/increase in cash held3,475,664(9,347,308)Cash and cash equivalents at beginning of financial year4,724,79414,177,509Effect of exchange rate fluctuations on cash held42(105,407)	Net cash (used in) investing activities		(10,679,038)	(11,051,050)	
Net cash provided by financing activities7,467,306594,800Net (decrease)/increase in cash held3,475,664(9,347,308)Cash and cash equivalents at beginning of financial year4,724,79414,177,509Effect of exchange rate fluctuations on cash held42(105,407)	CASH FLOWS FROM FINANCING ACTIVITIES				
Net (decrease)/increase in cash held3,475,664(9,347,308)Cash and cash equivalents at beginning of financial year4,724,79414,177,509Effect of exchange rate fluctuations on cash held42(105,407)	Net proceeds from Issue of Shares		7,467,306	594,800	
Cash and cash equivalents at beginning of financial year 4,724,794 14,177,509  Effect of exchange rate fluctuations on cash held 42 (105,407)	Net cash provided by financing activities		7,467,306	594,800	
Effect of exchange rate fluctuations on cash held 42 (105,407)	Net (decrease)/increase in cash held		3,475,664	(9,347,308)	
	Cash and cash equivalents at beginning of financial year		4,724,794	14,177,509	
Cash and cash equivalents at end of financial year 9 8,200,500 4,724,794	Effect of exchange rate fluctuations on cash held		42	(105,407)	
	Cash and cash equivalents at end of financial year	9	8,200,500	4,724,794	

The accompanying notes form part of these financial statements.

For Year Ended 30 June 2016

#### **NOTE 1: Statement of Significant Accounting Policies**

Carnegie Wave Energy Limited ("the Company") is a company domiciled in Australia. The consolidated financial statements of the company as at and for the twelve months ended 30 June 2016 comprise the Company and its subsidiaries ('Consolidated Group').

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

The consolidated financial statements were authorised for issue by the Board of Directors on 28th August 2016.

#### **Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (AASB), adopted by the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### New and amended accounting standards and interpretations

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

#### **Accounting Policies**

#### **Principles of Consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Carnegie Wave Energy Limited at the end of the reporting period. A controlled entity is any entity over which Carnegie Wave Energy Limited has the power to direct the activities of the entity and is exposed to, or has rights to, variable returns from its involvement. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 12 to the financial statements.

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

#### Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

#### For Year Ended 30 June 2016

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, associates, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

#### **Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost, where applicable, any accumulated depreciation and impairment losses.

#### Plant and equipment

#### Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Consolidated Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

#### Depreciation

The depreciable amount of all fixed assets including capitalised lease assets is depreciated on a straight-line basis over their useful lives to the Consolidated Group commencing from the time the asset is held ready for use.

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

#### Class of Fixed Asset Depreciation Rate

Plant and equipment 1.0% – 33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

### For Year Ended 30 June 2016

#### Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

#### **Financial Instruments**

#### **Recognition and Initial Measurement**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

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

#### **Classification and Subsequent Measurement**

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

Amortised cost is calculated as:

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

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

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

#### Loans and receivables i.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

#### Available-for-sale financial assets

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

#### **Financial Liabilities**

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

#### Held-to-maturity investments

Held-to maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the company's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

#### Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

#### For Year Ended 30 June 2016

#### **Impairment**

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

#### Derecognition

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

Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

#### **Borrowings**

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

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

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

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

#### Finance costs

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

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

#### **Impairment of Assets**

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries or associates. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed immediately in the profit or loss unless the asset is carried at a re-valued amount in accordance with another accounting standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

#### Intangible Asset - Acquired Intellectual Property and **Development costs**

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

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

### For Year Ended 30 June 2016

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

#### **Foreign Currency Transactions and Balances**

#### **Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

#### Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of nonmonetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

#### **Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

#### **Equity-settled compensation**

#### (i) Equity-settled

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the

equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to the Option Reserve. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

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

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

- During the vesting period, the liability recognised at each reporting date is the fair value of the benefit at that date multiplied by the expired portion of the vesting period
- (b) From the end of the vesting period until settlement, the liability recognised is the full fair value of the liability at the reporting date
- (c) All changes in the liability are recognised in profit or loss for the period.

The fair value of the liability is determined, initially and at each reporting date until it is settled, by applying the Black-Scholes option pricing model, taking into account the terms and conditions on which the benefit was granted, and to the extent to which employees have rendered service to date.

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

#### **Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

#### For Year Ended 30 June 2016

#### **Cash and Cash Equivalents**

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

#### **Revenue and Other Income**

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

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

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

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

#### Trade and Other Receivables

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

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

#### **Associates**

Associates are entities over which the consolidated entity has significant influence but not control or joint control.

Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

#### **Trade and Other Payables**

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

#### Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### **Government Grants**

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

#### Earnings/(loss) per share

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

Diluted earnings/(loss) per share is calculated as net profit attributable to members of the Consolidated Group,

#### For Year Ended 30 June 2016

adjusted for, the dilutive effects of any outstanding unlisted options over ordinary shares in the parent.

#### **Contributed Equity**

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

#### **Comparative Figures**

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

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

#### **New Accounting Standards for Application in Future Periods**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

#### **AASB 9 Financial Instruments**

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12 month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

#### **AASB 15 Revenue from Contracts with Customers**

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

#### For Year Ended 30 June 2016

#### AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-ofuse' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

#### Significant accounting judgements, estimates and assumptions

#### Significant accounting judgements

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

#### Impairment of development asset

The Group assesses impairment of all assets (including intangible assets) at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists the recoverable amount of the asset is determined. Impairment test is also carried out for all intangible assets with indefinite useful life (Note 15).

#### Share based payment transactions

The Consolidated Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instrument at the date at which they are granted. The fair value is determined by using Black-Scholes formula taking into account the terms and conditions upon which the instruments are granted, as disclosed in Note 29.

For Year Ended 30 June 2016

#### **NOTE 2: Revenue and Other Income**

	Note	<b>Consolidated Group</b>	
		2016	2015
		\$	\$
Sales revenue	а	200,375	-
Royalty income	b	882,798	1,417,715
Other income			
Interest received	С	294,538	207,835
Gain on PPE		690	(718)
Realised gain on foreign exchange		(20,496)	91,685
		274,732	298,803

- Sales revenue is a result of activities for the design & development of integrated renewable energy and desalination a. systems on remote islands.
- b. As a result of activities prior to the development of the CETO technology, the Company holds a mining royalty with respect to a gold deposit in Western Australia. Under the royalty agreement, the Company receives a payment per ounce of gold extracted by third parties. The past and any future royalty income stream requires no expenditure or resources by the Company.
- C. Interest revenue from:

Bank deposits	294,538	207,835
Total interest revenue	294,538	207,835

#### NOTE 3: Share of Profits of Associate Accounted for Using the Equity Method

	Consc	olidated Group
	2016	2015
	\$	\$
Share of profit – Energy Made Clean group	371,892	-

#### **NOTE 4: Loss for the Year**

		Collso	iluateu Group
		2016	2015
		\$	\$
a.	Expenses		
	Depreciation of non-current assets – property, plant and equipment	117,072	109,015
	Asset write down	-	-
	Doubtful debts expense	492	486
	Movement in provision for doubtful debts:		
	wholly-owned subsidiaries	492	472
Net	movement in provisions	486	486

Consolidated Group

### For Year Ended 30 June 2016

**NOTE 5: Income Tax Expense** 

		Note	Consol	idated Group
			2016	2015
			\$	\$
a.	The components of tax expense comprise:			
	Current tax		(981,216)	905,153
	Deferred tax	_	981,216	(905,153)
b.	The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:			
	Prima facie tax payable (benefit) on profit from ordinary activities before income tax at 30% (2015: 30%)			
	– Consolidated Group		(1,904,816)	(1,402,524)
Add:				
Тах е	effect of:			
_	Tax rate differential		43,341	
_	Other non-allowable items		5,391	5,066
_	Tax losses not recognised		-	(451,096)
_	Non deductible R&D costs		194,110	212,298
_	Assessable government grants		385,495	1,293,799
_	Share of profits from equity accounted investment		(95,540)	-
_	Recognition of previously unrecognised tax losses		(3,304,153)	-
_	Share options expensed during year		179,443	231,435
_	Movement in deferred tax balances not recognised		83,762	188,565
_	Under/(over) re utilisation of previously unrecognised losses		-	(454,348)
_	Under/(over) provided in prior periods		4,412,967	376,805
Less				
Тах	effect of:			
_	Capital profits not subject to income tax		-	-
_	Other allowable items		-	-
Inco	me tax attributable to entity		-	-
Curr	ent tax benefit		_	-

#### For Year Ended 30 June 2016

#### **NOTE 5: Income Tax Expense (Cont)**

The Group has tax losses carried forward of \$37,472,314 (2015: \$34,148,664). The tax losses do not expire under current tax legislation. Deferred tax asset has not been recognised in respect of tax losses carried forward as a formal assessment of the recoverability of the tax losses under the current tax legislation has not been performed.

#### **NOTE 6: Interests of Key Management Personnel (KMP)**

Refer to the Remuneration Report contained in the Report of the Directors for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2016.

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

<b>Key Management Person</b>	Position
Jeffrey Harding	Non-Executive Chairman
Michael Ottaviano	Managing Director
Kieran O'Brien	Executive Director
Michael Fitzpatrick	Non-Executive Director
Grant J Mooney	Non-Executive Director and Company Secretary
Greg Allen	Chief Operating Officer

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

	2016	2015
	\$	\$
Short term employee benefits	1,497,084	1,417,128
Share based payments	23,830	80,226
Post employment benefits	61,377	53,219
	1,582,291	1,550,573

#### **Options and Rights Holdings** b.

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

	Balance 1.7.2015	Granted as Compensation	Options Exercised	Net Change Other	Balance 30.6.2016
Kieran O'Brien	10,000,000	-	-	-	10,000,000
Michael Fitzpatrick	5,000,000	-	-	_	5,000,000
Grant Mooney	15,000,000	-	-	_	15,000,000
John Leggate	5,000,000	-	-	-	5,000,000
Jeffrey Harding	5,000,000	-	-	-	5,000,000
Greg Allen	15,000,000	-	-	(10,000,000)	5,000,000
Total	55,000,000	-	-	(10,000,000)	45,000,000

#### For Year Ended 30 June 2016

#### **NOTE 6: Interests of Key Management Personnel (Cont)**

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

#### **Terms & Conditions for Each Grant**

	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date	Exercise Price	First Exercise Date	Last Exercise Date
Grant Mooney	15,000,000	15,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
Kieran O'Brien	10,000,000	10,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
Jeffrey Harding	5,000,000	5,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
John Leggate	5,000,000	5,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
Michael Fitzpatrick	5,000,000	5,000,000	25 Nov 2013	2.11 cents	6.5 cents	25 Nov 2013	24 Nov 2018
Greg Allen	2,500,000	5,000,000	4 July 2014	1.86 cents	7.3 cents	4 July 2015	3 July 2017
	42,500,000	45,000,000					
		_					

All options were granted for nil consideration.

#### **Shareholdings**

#### **Number of Shares held by Key Management Personnel**

Balance 1.7.2015	Received as Compensation	Options Exercised	Net Change Other	Balance 30.6.2016
125,365,359	-	-	-	125,365,359
39,790,000	-	-	-	39,790,000
2,553,651	-	-	-	2,553,651
958,750	-	-	238,095	1,196,845
170,000	-	-	-	170,000
100,000	-	-	-	100,000
3,000	-	-	-	3,000
168,940,760	-	_	238,095	169,178,855
	1.7.2015 125,365,359 39,790,000 2,553,651 958,750 170,000 100,000 3,000	1.7.2015 Compensation  125,365,359 -  39,790,000 -  2,553,651 -  958,750 -  170,000 -  100,000 -  3,000 -	1.7.2015       Compensation       Exercised         125,365,359       -       -         39,790,000       -       -         2,553,651       -       -         958,750       -       -         170,000       -       -         100,000       -       -         3,000       -       -	1.7.2015         Compensation         Exercised         Other           125,365,359         -         -         -           39,790,000         -         -         -           2,553,651         -         -         -           958,750         -         -         238,095           170,000         -         -         -           3,000         -         -         -

For Year Ended 30 June 2016

#### **NOTE 7: Auditors' Remuneration**

	Со	nsolidated Group
	2016	2015
	\$	\$
Remuneration of the auditor of the parent entity for:		
auditing or reviewing the financial report	82,500	80,000

#### **NOTE 8: Earnings per Share**

			Consolidated Group
		2016	2015
Basi	c loss per share (cents per share)	(0.337)	(0.275)
Dilut	ted loss per share (cents per share)	(0.337)	(0.275)
(a)	Reconciliation of earning to Net Loss		
	Loss used in the calculation of basic EPS	(6,349,387)	(4,784,050)
	Loss used in the calculation of diluted EPS	(6,349,387)	(4,784,050)
(b)	Weighted average number of ordinary shares used in calculation of weighted average earnings per share	1,886,387,319	1,738,203,240

As at 30 June 2015 and 30 June 2016, the outstanding options were not dilutive as the weighted average exercise price of the options were higher than the weighted average share price for the year.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

#### **NOTE 9: Cash and Cash Equivalents**

	Consolidate	
	2016	2015
	\$	\$
Cash on Hand	606	222
Cash at bank	8,199,894	4,724,572
	8,200,500	4,724,794

#### For Year Ended 30 June 2016

#### **NOTE 10: Trade and Other Receivables**

		_
Conso	lidated	Group

	Gross Amount	Past due but not	impaired (days over	due)	Within trade terms
2016		1-30	31-60	61+	
	\$	\$	\$	\$	\$
CURRENT					
Trade receivables	3,337	-	-	3,337	-
Prepayments	90,521	-	-	-	90,521
Accrued revenue	295,462	-	-	-	295,462
Other receivables	74,417	-	-	-	74,417
Security deposits	260,000	-	-	-	260,000
	723,737	-	-	3,337	720,400
NON CURRENT					
Prepayments	460,000	-	-	-	460,000
	_	_	-	-	-
Security deposits					
Security deposits	460,000	-	-	-	460,000
Security deposits		Past due but not	- impaired (days over	rdue)	
Security deposits  2015	460,000  Gross Amount	Past due but not	- impaired (days over 31-60	rdue) 61+	460,000  Within trade terms
	Gross Amount	1-30	31-60	61+	Within trade terms
2015	Gross Amount	1-30	31-60	61+	Within trade terms
2015 CURRENT	Gross Amount	1-30 \$	31-60	61+ \$	Within trade terms
2015  CURRENT  Trade receivables	Gross Amount \$	1-30 \$	31-60	61+ \$	Within trade terms \$
2015  CURRENT  Trade receivables  Prepayments	\$ 384 627,902	1-30 \$	31-60	61+ \$	Within trade terms \$ - 627,902
2015  CURRENT  Trade receivables  Prepayments  Accrued revenue	\$ 384 627,902 380,160	1-30 \$ (215) -	31-60 \$ - -	<b>61+</b> \$ 599 -	\$ \$ 627,902 380,160
2015  CURRENT  Trade receivables  Prepayments  Accrued revenue  Other receivables	\$  384 627,902 380,160 8,288	1-30 \$ (215) -	31-60 \$ - - -	<b>61+</b> \$ 599 -	\$ \$ 627,902 380,160 8,288
CURRENT Trade receivables Prepayments Accrued revenue Other receivables Security deposits	\$  384 627,902 380,160 8,288 604,275	1-30 \$ (215) - - -	31-60 \$ - - -	<b>61+</b> \$ 599	\$  \$ 627,902 380,160 8,288 604,275
CURRENT Trade receivables Prepayments Accrued revenue Other receivables Security deposits	\$  384 627,902 380,160 8,288 604,275 1,621,009	1-30 \$ (215) - - -	31-60 \$ - - -	<b>61+</b> \$ 599	\$
CURRENT Trade receivables Prepayments Accrued revenue Other receivables Security deposits	\$  384 627,902 380,160 8,288 604,275	1-30 \$ (215) - - - - (215)	31-60 \$	<b>61+</b> \$ 599 599	\$  \$ 627,902 380,160 8,288 604,275

For Year Ended 30 June 2016

#### NOTE 11: Available for Sale Financial Assets

		Note	<b>Consolidated Group</b>	
			2016	2015
			\$	\$
Avai	lable-for-sale financial assets	а	12,414	12,414
a.	Available-for-sale Financial Assets Comprise			
	Unlisted investment, at cost			
	<ul> <li>shares in other corporations</li> </ul>		12,414	12,414
			12,414	12,414

Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturity date attached to these investments.

The fair value of unlisted available-for-sale financial assets cannot be reliably measured. As a result, all unlisted investments are reflected at cost.

#### **NOTE 12: Interests in Subsidiaries**

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

	Country of Incorporation	Percentage O	wned (%) *
		2016	2015
Subsidiaries of Carnegie Wave Energy Limited:			
CMA Nominees Pty Ltd	Australia	100	100
New Millennium Engineering Pty Ltd	Australia	100	100
Carnegie Recreational Watercraft Pty Ltd	Australia	100	100
CETO IP (Australia) Pty Ltd	Australia	100	100
CETO Wave Energy Ireland	Ireland	100	100
CETO Wave Energy UK	United Kingdom	100	100
CETO Wave Energy Chile	Chile	100	100
Pacific Coastal Wave Energy Corp.	Canada	95	95

#### **NOTE 13: Investment in Associate**

\* Percentage of voting power is in proportion to ownership

	Note	Consolidated Group		
		2016	2015	
		\$	\$	
Investment in associate	31	5,047,919	-	

#### For Year Ended 30 June 2016

#### **NOTE 14: Property, plant and Equipment**

	Consolidated Gro	
	2016	2015
	\$	\$
PLANT AND EQUIPMENT		
Plant and equipment:		
At cost	1,354,935	1,145,627
Accumulated depreciation	(860,211)	(743,139)
Total plant and equipment	494,724	402,488

#### **Movements in Carrying Amounts**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

#### **Plant and Equipment**

2016	\$
Consolidated Group:	
Balance at the beginning of year	402,488
Additions	209,308
Disposals	-
Impairment	-
Depreciation expense	(117,072)
Carrying amount at the end of year	494,724

#### 2015

Consolidated Group:	
Balance at the beginning of year	414,318
Additions	100,987
Disposals	(3,802)
Impairment	-
Depreciation expense	(109,015)
Carrying amount at the end of year	402,488

For Year Ended 30 June 2016

#### **NOTE 15: Intangible Assets**

	Consolidated Group
	\$
Initial acquisition cost of CETO Technology – 2009	55,989,877
Subsequent development expenditure – CETO Technology	64,794,474
Grants and R&D tax incentives received	(30,682,103)
Balance as at 30 June 2015	90,102,248
Subsequent development expenditure – CETO Technology	4,123,227
Impairment	(7,818,030)
Other grants received	(66,537)
R&D tax incentive	(12,326,374)
Balance as at 31 December 2015	74,014,534
Subsequent development expenditure – CETO Technology	3,383,946
Reversal of impairment	7,818,030
Other grants received	(1,218,445)
Balance as at 30 June 2016	83,998,065

The CETO Technology has yet to be commercialised and is in the development phase, therefore the Fair Value less cost of disposal has been determined to be the most appropriate basis for determining recoverable amount. The recoverable amount of the CETO Technology represents the present value of the future cash flows expected to be derived from the further development and commercialisation of the CETO Technology less cost of disposal.

The determination of fair value is based on 'fair value' as defined under AASB 13: Fair Value Measurement. At 30 June 2016, the fair value has been estimated to be greater than the carrying value of the CETO technology of \$84 million, accordingly no net impairment loss has been recognised.

Fair value was determined by the Company engaging a suitably qualified independent consultant prior to conclusion of the financial year to prepare an independent valuation report. Cash flows are analysed by the independent consultant over a 25 year period approved by management for the years from 2016 to 2040. The period is consistent with the long term value of a new infrastructure technology and is consistent with comparable energy industry project lives.

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

The calculation of the fair value less cost of disposal is based on the following key assumptions;

- The timing of the development of a product that can be launched commercially;
- The Company will earn a profit margin based as a percentage of the manufacturing cost of CETO units sold;
- Forecast sales are based on a minority market share of the world's wave energy capacity annually to 2050;
- Other significant cost assumptions, including ongoing SG&A costs and corporate costs;
- The Consolidated Group will have access to sufficient funding to complete the CETO Development through to commercialisation (See Note 23); and

A post-tax discount rate of 19.8% to incorporate risks associated with commercialising a wave energy technology based on the range of 17.5% to 25%

### For Year Ended 30 June 2016

#### **NOTE 15: Intangible Assets (Cont)**

As discussed above, Carnegie has adopted the Fair Value to determine the recoverable amount of the CETO Technology. This fair value has been determined on the basis of the Fair Value measurement hierarchy outlined in AASB 13. The fair value has been determined using unobservable inputs and is therefore considered to be a Level 3 asset. The Level 3 assets unobservable inputs are as follows:

Key Assumptions	Range		
Timing of commercialisation	No delay to five-year delay		
Carnegie's market share	2024 to 2030: 15 - 30% 2031 to 2040: 10 - 25% 2041 to 2050: 5 - 20%		
Profit Margin	10% to 20%		
SG&A costs	0.5% to 5.0%		

#### **NOTE 16: Other Assets**

		<b>Consolidated Group</b>
	2016	2015
	\$	\$
CURRENT		
Deferred expenses	34,600	57,807
	34,600	57,807
NON-CURRENT	67,552	153,290
Deferred expenses	67,552	153,290

#### **NOTE 17: Trade and Other Payables**

Co	onsolidated Group
2016	2015
\$	\$
579,611	681,816
2,055,177	200,587
57,177	96,894
2,691,965	979,297
33,169	47,252
33,169	47,252
	2016 \$ 579,611 2,055,177 57,177 2,691,965

For Year Ended 30 June 2016

#### **NOTE 18: Borrowings**

		Consolidated Group
	2016	2015
	\$	\$
a. Convertible note	3,423,035	3,561,081
		Consolidated Group
	2016	2015
Convertible note	\$	\$
Balance at the beginning of the period	3,561,081	3,475,130
Consideration received	-	-
Equity component	(379,733)	-
Conversion to equity during the period	-	(239,663)
Unwinding of finance costs	241,687	325,614
Issue costs	-	-
	3,423,035	3,561,081

The Company has on issue 3,690 Convertible Notes at an issue price of \$1,000 each ("Notes"). The Notes can convert to equity at any time at 4.2 cents per share and do not pay a coupon. The Notes have a maturity date of 17 November 2017. The amount of \$3,690,000, as shown on the Balance Sheet as Non-Current Asset - Other Financial Assets is held in a term deposit in trust for the noteholders until such time as the notes are either converted to shares or mature.

#### b. Senior loan facility

Restricted access was available at the reporting date to the following lines of credit:

		Consolidated Group
	2016	2015
	\$	\$
Total facilities		
Bank loans	21,000,000	20,000,000
	21,000,000	20,000,000
Used at the reporting date		
Bank loans	-	-
	-	-
Unused at the reporting date		
Bank loans	21,000,000	20,000,000
	21,000,000	20,000,000

On 19 November 2015, the Company signed a five year loan facility for \$21 million with the Commonwealth Bank of Australia. This will provide funding required for the next stage of CETO technology development and commercialisation and part financing for the Garden Island Microgrid project.

No debt was drawn under the Commonwealth Bank of Australia loan facility as at reporting date.

### For Year Ended 30 June 2016

#### **NOTE 19: Provisions**

		<b>Consolidated Group</b>
	2016	2015
Analysis of Total Provisions	\$	\$
Current	427,096	369,135
Non-current	207,470	229,155
	634,566	598,290
	Annual and Long Service Leave	Total
Consolidated Group	\$	\$
Opening balance at 1 July 2015	598,2906	598,290
Additional provision	36,276	36,276
Unused amounts reversed	-	-
Balance at 30 June 2016	634,566	634,566

#### **Provision for Long-term Employee Benefits**

A provision has been recognised for employee entitlements relating to long service leave (LSL). In calculating the present value of future cash flows in respect of LSL, the probability of LSL being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 of this report.

For Year Ended 30 June 2016

#### **NOTE 20: Issued Capital**

		Consolidated Group
	2016	2015
	\$	\$
1,997,849,888 (2015: 1,766,571,657)		
fully paid ordinary shares	154,019,255	144,940,603
	154,019,255	144,940,603

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

	2016	2015
	No.	No.
a. Ordinary shares		
At the beginning of reporting period	1,766,571,657	1,720,450,293
Shares issued during the year		
20 August 2014		1,250,543
10 November 2014		10,000,000
10 December 2014		1,123,935
31 December 2014		10,000,000
6 February 2015		2,222,223
12 February 2015		222,223
23 February 2015		3,537,881
5 March 2015		3,955,556
25 March 2015		3,055,556
4 June 2015		1,031,225
17 June 2015		9,722,222
1 September 2015	1,123,470	
20 November 2015	4,545,455	
27 November 2015	181,491,659	
19 April 2016	44,117,647	
At reporting date	1,997,849,888	1,766,571,657

- On 1 September 2015, 1,123,470 shares were issued to holders of Carnegie convertible notes. The shares were (1) issued in lieu of a 6% cash quarterly coupon under the terms of the convertible note announced on 18 November 2013. The shares had an effective issue price of \$0.050 per share.
- (2) On 20 November 2015, 4,545,455 shares were issued to the Australian Clean Energy Finance Corporation as a termination fee under the terms of the debt facility announced on 19 March 2014. The shares had an effective issue price of \$0.044 per share.
- On 27 November 2015, the Company raised \$1,059,030 by issuing 25,215,000 ordinary shares in a private (3) placement to sophisticated investors at an issue price of \$0.042 per share.
- On 27 November 2015, the Company raised \$6,513,012 by issuing 155,071,714 ordinary shares pursuant to a Share Purchase Plan to existing shareholders at an issue price of \$0.042 per share.
- On 27 November 2015, 1,204,945 shares were issued to holders of Carnegie convertible notes. The shares were issued in lieu of a 6% cash quarterly coupon under the terms of the convertible note announced on 18 November 2013. The shares had an effective issue price of \$0.046 per share.

#### For Year Ended 30 June 2016

#### **NOTE 20: Issued Capital (Cont)**

On 19 April 2016, the company issued 44,117,647 ordinary shares at a deemed issue price of \$0.034 per share, representing \$1.5 million as part of the acquisition costs to acquire a 35% stake in Energy Made Clean (EMC) group.

#### b. Capital Management

Management controls the capital of the group in order to provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's capital is made up of ordinary share capital.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. This includes the management of share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

#### **NOTE 21: Reserves**

		Co	onsolidated Group
		2016	2015
		\$	\$
a.	Foreign Currency Translation Reserve The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries and foreign currencies	2,167	1,680
b.	Option Reserve The option reserve records items recognised as expenses on valuation of share options and share based payments including loan funded shares	3,958,179	7,862,134
Tota	ι	3,960,346	7,863,814

#### **NOTE 22: Capital and Leasing Commitments**

		Co	solidated Group	
		2016	2015	
		\$	\$	
(a)	Operating and Finance Lease Commitments			
	Not later than 1 year	283,798	197,397	
	Later than 1 year but not later than 5 years	482,796	636,779	
	Later than 5 years	-	-	
		766,594	834,176	

Operating leasing commitments consist of property leases for two properties including the Company's head office. They are all non-cancellable leases with the longest lease having an expiring term of 3 years, expiring on 30 April 2019.

Finance lease commitments consist of amounts for plant and equipment.

For Year Ended 30 June 2016

#### **NOTE 23: Business Risk**

In the financial year ended 30 June 2016, the Group incurred an operating loss of \$6.3 million (2015: \$4.8 million). As at 30 June 2016, the Group had an accumulated deficit of \$62 million. These losses have resulted primarily from costs incurred in the CETO Technology development program, and from associated general and administrative costs. The Group expects to increase certain operating expenses as it continues to expand infrastructure and commercialization activities.

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

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

### **NOTE 24: Operating Segments**

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

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

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

### For Year Ended 30 June 2016

#### NOTE 25: Cash Flow Information

		Consolidated Group
Reconciliation of Cash Flow from	2016	2015
Operations with Loss after Income Tax	\$	\$
Loss after income tax	(6,349,387)	(4,784,050)
Non-cash flows in profit		
Depreciation	117,072	109,015
Net loss on disposal of investments	-	-
Net loss on disposal of assets	-	718
Net loss on foreign exchange	20,497	(91,685)
Loss in share of associate	-	-
Provision for impairment	-	-
Write-off of assets	-	-
Share options & loan funded shares expensed	598,144	771,450
Finance costs	1,350,001	1,241,829
Doubtful Debts	492	486
Share of profit – associate	(371,892)	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and term receivables	322,677	(634,168)
(Increase)/decrease in non-current assets	(208,618)	(74,878)
(Increase)/decrease in development asset	11,215,606	(4,786,955)
Increase/(decrease) in trade payables and accruals	(27,926)	921,136
Increase/(decrease) in provisions	20,730	160,054
Cashflow used in operations	6,687,396	1,108,942

### **NOTE 26: Events After the Reporting Period**

On 1 July 2016, the Consolidated Group announced the successful deployment and commissioning of a wave monitoring buoy off the South coast of Mauritius carried out in conjunction with its Mauritian Project partners.

For Year Ended 30 June 2016

#### **NOTE 27: Related Party Transactions**

#### (a) Transactions with Director related entities

Company secretarial services have been provided by Mooney & Partners Pty Ltd, a company associated with Grant Mooney during the financial year. These amounts have been included in the disclosures at Note 6. These transactions were undertaken under normal commercial terms.

#### **NOTE 28: Financial Risk Management**

#### **Financial Risk Management Policies**

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

#### Interest rate risk

The Consolidated Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. The effective weighted average interest rates in classes of financial assets and liabilities is as follows:

	Weighted Average	Interest —	Fixed Interest Rate Maturing			
	Effective Interest Rate			1 to 5 years	Non-interest Bearing	Total
Consolidated Group	%	\$	\$	\$	\$	\$
30 June 2016						
Financial assets:						
Cash and cash equivalents	1.92	2,198,110	6,000,000	-	2,390	8,200,500
Receivables	2.45	-	260,000	460,000	463,737	1,183,737
Other financials assets	2.49	-	-	3,690,000	12,414	3,702,414
		2,198,110	6,260,000	4,150,000	478,541	13,086,651
Financial liabilities:		_	-	-	2,725,134	2,725,134
Accounts payable		-	-	-	2,725,134	2,725,134
30 June 2015						
Financial assets:						
Cash and cash equivalents	1.75	2,593,464	2,110,000	-	21,330	4,724,794
Receivables	2.74	-	604,275	-	1,376,750	1,981,025
Other financials assets	-	-	-	-	12,414	12,414
		2,593,464	2,714,275	-	1,401,494	6,718,233
Financial liabilities:		-	-	-	1,026,549	1,026,549
Accounts payable	-	-	-	-	1,026,549	1,026,549

#### For Year Ended 30 June 2016

#### **NOTE 28: Financial Risk Management (Cont)**

#### (b) **Credit Risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the Statement of Financial Position and notes to the Statement of Financial Position.

The Consolidated Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Consolidated Group. Details with respect to credit risk of trade and other receivables are provided in note 10. The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings.

#### Net fair value (c)

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

For unlisted investments where there is no organised financial market the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment, where this could not be done, they have been carried at cost. No financial assets or financial liabilities are readily traded on organised markets in standardised form other than investments.

Financial Instruments Measured at Fair Value

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

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

#### **Consolidated Group**

	Level 1	Level 2	Level 3	Total
2016	\$	\$	\$	\$
Financial assets:				
Available-for-sale financial assets:				
<ul><li>listed investments</li></ul>	-	-	_	_
<ul><li>unlisted investments</li></ul>	-	-	12,414	12,414
_	-	-	12,414	12,414

#### 2015

Fina	ancial assets:				
Ava	ilable-for-sale financial assets:				
_	listed investments	-	-	-	-
_	unlisted investments	-	-	12,414	12,414
		-	-	12,414	12,414

For Year Ended 30 June 2016

#### **NOTE 28: Financial Risk Management (Cont)**

#### (d) **Sensitivity Analysis**

#### **Interest Rate Risk**

The group has performed sensitivity analysis relating to its exposure to interest rate risk, at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

At 30 June 2016, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated Group	
	2016	2015
	\$	\$
Change in profit		
- Increase in interest rate by 1%	113,284	79,936
– Decrease in interest rate by 1%	(113,284)	(79,936)
Change in equity		
- Increase in interest rate by 1%	113,284	79,936
– Decrease in interest rate by 1%	(113,284)	(79,936)

#### Liquidity Rise (e)

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

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

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

	Consolidated Group	
	2016	2015
Contractual Cash Flow	\$	\$
Less than 30 days	2,691,965	979,297
More than 1 year	33,169	47,252
	2,725,134	1,026,549

#### For Year Ended 30 June 2016

#### **NOTE 29: Share Based Payments**

(a) Types of share based payment plans

Employee share option plan

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

Management Incentive Equity Plan

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

Consultant share options

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

Consultant & financier shares

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

#### **Employee Share Option Plan**

The following employee share option plan payments were made during the financial year ended 30 June 2016:

On 10 July 2015, 26,600,000 employee options were issued via the employee incentive option scheme to employees with half to vest on 10 July 2016 and the balance to vest on 10 July 2017. The options are not issued based on performance criteria, but are issued to increase goal congruence between executives and shareholders. The options have an exercise price of \$0.054.

#### Consultant & financier shares

The following consultant & financier shares were issued during the financial year ended 30 June 2016:

- On 1 September 2015, 1,123,470 consultant & financier shares were issued to holders of Carnegie convertible notes. The shares were issued in lieu of a 6% cash quarterly coupon under the terms of the convertible note announced on 18 November 2013. The shares had an affective issue price of \$0.050 per share.
- On 20 November 2015, 4,545,455 consultant & financier shares were issued to the Clean Energy Finance Corporation as a termination fee under the terms of the debt facility announced on 19 March 2014. The shares had an effective issue price of \$0.044 per share.
- On 27 November 2015, 1,204,945 consultant & financier shares were issued to holders of Carnegie convertible notes. The shares were issued in lieu of a 6% cash quarterly coupon under the terms of the convertible note announced on 18 November 2013. The shares had an affective issue price of \$0.046 per share.

For Year Ended 30 June 2016

#### **NOTE 29: Share Based Payments (Cont)**

(i) Total options outstanding and exercisable are as follows:

#### **Consolidated Group**

	Number of Options	<b>Weighted Average Exercise Price</b>
		\$
Outstanding options at 1 July 2015	134,600,000	0.0640
Granted	26,600,000	0.0540
Exercised	-	-
Expired	(47,750,000)	0.0523
Outstanding at 30 June 2016	113,450,000	0.0662
Exercisable at 30 June 2016	70,725,000	0.0672

No options were exercised during the year ended 30 June 2016.

The options outstanding at 30 June 2016 had a weighted average exercise price of \$0.0662 and a weighted average remaining contractual life of 2.67 years. Exercise prices range from \$0.05 to \$0.073 in respect to options outstanding at 30 June 2016.

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

#### **Employee options**

Weighted average exercise price \$	0.054
Weighted average life of option	3 years
Underlying share price \$	0.045
Expected share price volatility	68%
Risk free rate	2.0%

#### For Year Ended 30 June 2016

#### **NOTE 30: Parent Information**

	2016	2015
	\$	\$
The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.		
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	8,948,373	6,386,387
Non-current assets	94,968,363	91,856,435
TOTAL ASSETS	103,916,736	98,242,822
LIABILITIES		
Current assets	10,709,615	8,938,789
Non-current assets	3,663,674	3,837,488
TOTAL LIABILITIES	14,373,289	12,776,277
EQUITY		
Issued capital	154,019,255	144,940,603
Reserves	3,958,178	7,862,132
Accumulated losses	(68,433,986)	(67,336,190)
TOTAL EQUITY	89,543,447	85,466,545
STATEMENT OF COMPREHENSIVE INCOME		
Total profit	(5,979,627)	(4,589,069)
Total comprehensive income	(5,979,627)	(4,589,069)

#### Guarantees

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

#### **Contractual commitments**

At 30 June 2016, the Company had not entered into any contractual commitments for the acquisition of property, plant and equipment (2015: Nil).

#### **NOTE 31: Interests in Associate**

Interests in associates are accounted for using the equity method of accounting. Information relating to associates that are material to the consolidated entity are set out below:

			Ownership interest		
	Principal place of business /	2016	2015		
Name	Country of incorporation	%	%		
Energy Made Clean (EMC) Group	Australia	35.00%	-		

For Year Ended 30 June 2016

#### **NOTE 31: Interests in Associate (Cont)**

	Energy Made Cl	ean (EMC) Group
	2016	2015
	\$	\$
Summarised statement of financial position		_
Current assets	7,969,873	-
Non-current assets	1,061,098	-
Total assets	9,030,972	-
Current liabilities	4,901,016	-
Non-current liabilities	174,301	-
Total liabilities	5,075,317	-
Net assets	3,955,655	-
Expenses  Loss before income tax  Income tax expense  Profit after income tax	(16,921,078) (333,062) 988,606 655,544	- - -
Other comprehensive income	<u> </u>	
Total comprehensive income	655,544	-
	2016	2015
	\$	\$
Reconciliation of the consolidated entity's carrying amount		
Opening carrying amount	4,676,027	-
Share of profit after income tax	371,892	_
Share of profit after income tax	37 I, 0 J L	

#### **NOTE 32: Company Details**

The registered office and Principal place of business of the Company is:

#### **Carnegie Wave Energy Limited**

Suite 5 4B Mews Road FREMANTLE WA 6160

### Directors' Declaration

The Directors of the Company declare that:

- 1. the financial statements and notes, as set out on pages 33 to 67, are in accordance with the Corporations Act 2001
  - a. comply with Accounting Standards and the Corporations Regulations 2001;
  - b. give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the Consolidated Group;
- the financial statements comply with International Financial Reporting Standards as set out in Note 1; 2.
- 3. the remuneration disclosures that are contained in the Remuneration Report in the Directors Report comply with the Corporations Act 2001 and the Corporations Regulations 2001; and
- the Managing Director and Chief Finance Officer have each declared that:
  - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view;
- 5. In the Director's opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Dr Michael Edward Ottaviano

Managing Director

Grant Jonathan Mooney Director

Date this 31st day of August 2016



# Independent Auditor's Report

### To the Members of Carnegie Wave Energy Ltd and its Controlled Entities

#### **Report on the Financial Report**

We have audited the accompanying financial report of Carnegie Wave Energy Ltd., which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for year ended 30 June 2016, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### **Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

#### **Opinion**

#### In our opinion:

- (a) the financial report of Carnegie Wave Energy Ltd. is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

#### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 9 to 11 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

#### **Auditor's Opinion**

In our opinion, the Remuneration Report of Carnegie Wave Energy Ltd. for the year ended 30 June

2016 complies with section 300A of the Corporations

Crowe Horwath Perth Managing Director

Cvrus Patell Partner

Signed at Perth, 31 August 2016

Crowe Apmath Pull

### Additional Information

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report. The information was prepared based on share registry information processed up to 31 August 2016.

Spread of Holdings	Number of holders of ordinary shares
1 - 1,000	237
1,001 - 5,000	660
5,001 - 10,000	950
10,001 - 100,000	4,657
100,001 - and over	2,942
Number of Holders	9,446
Number of shareholders holding less than a marketable parcel	2,783

#### **Substantial Shareholders**

Shareholder Name	Number of Shares
Log Creek PL	125,365,359
UIL Limited	101,330,192

#### **Voting Rights**

All ordinary shares carry one vote per share without restriction. Options for ordinary shares do not carry any voting rights.

#### **Statement of Quoted Securities**

Listed on the Australian Stock Exchange are 1,997,849,888 fully paid shares. All ordinary shares carry one vote per share without restriction.

Options for ordinary shares do not carry any voting rights.

#### **Company Secretary**

The names of the joint Company Secretaries are Grant Jonathan Mooney and Aidan John Flynn.

Mr Mooney is the principal of Perth-based corporate advisory firm Mooney & Partners Pty Ltd, specialising in corporate compliance administration to public companies. Currently, Mr Mooney acts as Company Secretary to several ASX listed companies across a variety of industries including technology, resources and energy and has obtained a depth of experience through his involvement in a diversity of corporate transactions. He is a member of the Institute of Chartered Accountants in Australia.

Mr Flynn, is the company's Chief Financial Officer and has over 16 years of experience in accounting and finance and the energy industry. Mr Flynn is a CPA and holds a Bachelor of Science and a Bachelor of Commerce as well as postgraduate qualifications in energy studies.

#### **Registered Office**

The registered office is at Suite 5, 4B Mews Road, Fremantle, WA 6160

The telephone number is (08) 9335 3993 The facsimile number is (08) 9433 5600

# Additional Information

#### Twenty Largest Holders of Each Class of Quoted Equity Securities

Ordinary Fully Paid Shares		
Shareholder Name	Number of Shares	Percentage of Capital
LOG CREEK PL	116,819,904	5.85%
UIL LTD	101,330,192	5.07%
CLEAN ENERGY INV HLDGS LT	41,035,483	2.05%
ABN AMRO CLEARING SYDNEY	40,609,748	2.03%
OTTAVIANO MICHAEL	35,000,000	1.75%
CATHBEN PL	21,110,499	1.06%
CITICORP NOM PL	18,395,471	0.92%
RICHCAB PL	15,275,761	0.76%
TRACKLAW PL	14,506,570	0.73%
JP MORGAN NOM AUST LTD	13,590,348	0.68%
WOLF CAP PL	12,783,334	0.64%
CLEAN ENERGY FINANCE CORP	12,500,000	0.63%
FRASER MATTHEW PETER	11,802,345	0.59%
BOND STREET CUSTS LTD	9,076,619	0.45%
LOG CREEK PL	8,545,455	0.43%
MASTERS LYNSAY + JANET	7,742,541	0.39%
RHODES DAMIEN TERENCE M	7,500,000	0.38%
MAPU PL	6,500,000	0.33%
HSBC CUSTODY NOM AUST LTD	6,269,099	0.31%
GOODFIELD DAVID	6,116,600	0.31%
TOTAL	506,509,969	25.35%

#### **Holders Securities in an Unlisted Class**

#### Options

Optionholder Name	No. Options	<b>Exercise Price</b>	<b>Vesting Date</b>	<b>Exercise Date</b>
Mr Jeffrey Harding	5,000,000	6.5 cents	25 November 2013	24 November 2018
Mr Michael Fitzpatrick	5,000,000	6.5 cents	25 November 2013	24 November 2018
Mr Kieran O'Brien	10,000,000	6.5 cents	25 November 2013	24 November 2018
Mr John Leggate	5,000,000	6.5 cents	25 November 2013	24 November 2018
Grant Mooney	15,000,000	6.5 cents	25 November 2013	24 November 2018

In addition to the options detailed above there are 75,600,000 unlisted options on issue under the Company's Employee Share Option Plan.

#### **Holders Of Restricted Securities**

#### Shares

Shareholder Name	Number of Shares	Percentage of Capital
UIL LTD	101,330,192	5.07%

### Notes

#### Directors

#### **Jeffrey Harding**

B.Eng, B.Com, MBA, FAICD (Chairman)

#### Dr Michael Ottaviano

B.Eng, MSc, DBA, MAICD, M.I.EngAus (Chief Executive Officer and Managing Director)

#### Kieran O'Brien

B.Eng, MBA, MEngSc, FIEI, FIEE (Executive Director)

#### Michael Fitzpatrick

B.Eng (Hons), B.A (Hons), (Non-Executive Director)

#### John Leggate

CBE, FREng (Non-Executive Director)

#### Grant Mooney

B.Bus, CA (Non-Executive Director and Company Secretary)

#### **Company Secretaries**

#### **Grant Mooney**

B.Bus CA (Non-Executive Director)

#### Aidan Flynn

B.Comm. BSc, CPA, Post Graduate Dip. Re (Chief Financial Officer)

#### Registered Office

Suite 5, 4B Mews Road Fremantle 6160, Western Australia T: +61 (8) 9335 3993 F: +61 (8) 9433 5600 E: enquiries@carnegiewave.com W: www.carnegiewave.com

#### Auditors

#### Crowe Horwath

256 St Georges Terrace Perth 6000, Western Australia

#### Solicitors

#### Allens

Level 37 QV1 250 St George's Terrace Perth 6000, Western Australia

#### **Share Registry**

#### **Security Transfer Registrars Pty Ltd**

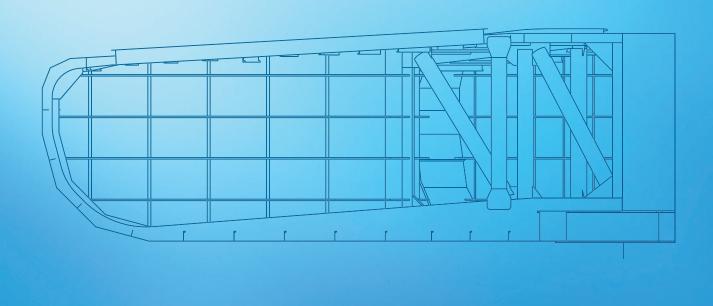
770 Canning Highway Applecross 6153, Western Australia T: +61 (8) 9315 2333 F: +61 (8) 9315 2233

#### **Stock Exchange**

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

The home exchange being Perth 2 The Esplanade Perth 6000, Western Australia ASX Code: CWE







#### **Registered Office**

Suite 5, 4B Mews Road Fremantle WA 6160 T: +61 8 9335 3993 F: +61 8 9433 5600

E: enquiries@carnegiewave.com

www.carnegiewave.com

