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**CARNEGIE WAVE ENERGY LIMITED**

**ABN 69 009 237 736**

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**NOTICE OF ANNUAL GENERAL MEETING  
OF SHAREHOLDERS  
AND  
EXPLANATORY MEMORANDUM**

**TO BE HELD AT 10:00AM (WST) ON FRIDAY, 4 NOVEMBER 2016**

**AT**

**FREMANTLE SAILING CLUB, 151 MARINE TERRACE,  
FREMANTLE, WESTERN AUSTRALIA**

## Notice of Annual General Meeting CARNEGIE WAVE ENERGY LIMITED

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Notice is hereby given that the Annual General Meeting of Carnegie Wave Energy Limited ("the **Company**") will be held at Fremantle Sailing Club, 151 Marine Terrace, Fremantle, Western Australia at 10:00 AM (WST) on Friday 4, November 2016 ("the **Meeting**").

### **AGENDA**

#### **ANNUAL REPORT**

To receive and consider the Annual Report of the Company and its controlled entities for the year ended 30 June 2016, which includes the Financial Report, the Directors' Report and the Auditor's Report.

#### **RESOLUTION 1 – REMUNERATION REPORT**

To consider and, if thought fit, to pass with or without amendment the following resolution as an **ordinary** resolution:  
"That the Remuneration Report as set out in the Annual Report for the year ended 30 June 2016 be adopted."

*Note – the vote on this resolution is advisory only and does not bind the Directors or the Company.*

##### **Voting exclusion statement**

In accordance with section 250R of the Corporations Act, a vote on this Resolution must not be cast by or on behalf of a member of the Key Management Personnel whose remuneration details are included in the Remuneration Report, or a Closely Related Party of such a member.

However, a vote may be cast by such a person if:

- (a) the person is appointed as proxy and the Proxy Form specifies how the proxy is to vote, and the vote is not cast on behalf of a person who is otherwise excluded from voting on this Resolution as described above; or
- (b) the person is the Chairman voting an undirected proxy which expressly authorises the Chairman to vote the proxy on a resolution connected with the remuneration of a member of the Key Management Personnel.

#### **RESOLUTION 2 – RE-ELECTION OF MR MICHAEL FITZPATRICK AS A DIRECTOR**

To consider and, if thought fit, to pass with or without amendment the following resolution as an **ordinary** resolution:

"That Mr Michael Fitzpatrick who retires in accordance with clause 13.2 of the Constitution and being eligible for re-election, be re-elected as a Director."

#### **RESOLUTION 3 – RE-ELECTION OF MR JOHN LEGGATE AS A DIRECTOR**

To consider and, if thought fit, to pass with or without amendment the following resolution as an **ordinary** resolution:

"That Mr John Leggate who retires in accordance with clause 13.2 of the Constitution and being eligible for re-election, be re-elected as a Director."

#### **RESOLUTION 4 – APPROVAL OF 10% PLACEMENT FACILITY**

To consider and, if thought fit, to pass with or without amendment the following resolution as a **special** resolution:

"That, pursuant to and in accordance with Listing Rule 7.1A and for all other purposes, Shareholders approve the issue of Equity Securities up to 10% of the issued capital of the Company (at the time of the issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions in the Explanatory Memorandum."

##### **Voting exclusion statement**

The Company will disregard any votes cast on this Resolution by a person (and any associates of such a person) who may participate in the 10% Placement Facility and a person (and any associates of such a person) who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if this Resolution is passed.

However, the Company need not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

#### **RESOLUTION 5 – APPROVAL OF EMPLOYEE SHARE OPTION PLAN**

To consider and, if thought fit, to pass with or without amendment the following resolution as an **ordinary** resolution:

"That, pursuant to and in accordance with Listing Rule 7.2, Exception 9(b) and for all other purposes, the Company approves the issue of securities under the employee incentive option scheme for employees and directors known as the "Carnegie Wave Energy Limited Employee Share Option Plan 2016", on the terms and conditions in the Explanatory Memorandum accompanying this Notice of Meeting".

##### **Voting exclusion statement**

The Company will disregard any votes cast on this Resolution by a Director of the Company, other than any Directors who are ineligible to participate in any employee incentive scheme in relation to the Company, and any person associated with those persons. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or if it is cast by a person chairing the Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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### **SNAPSHOT DATE**

The Directors have determined that in accordance with Regulations 7.11.37 and 7.11.38 of the *Corporations Regulations 2001* (Cth), the persons eligible to attend and vote at the Meeting are those persons who are registered as Shareholders as at 5.00 pm (WST) on Wednesday, 2 November 2016.

### **HOW TO VOTE**

Shareholders can vote by either:

- attending the Meeting and voting in person or by attorney or, in the case of corporate Shareholders, by appointing a corporate representative to attend and vote; or
- appointing a proxy to attend and vote on their behalf using the Proxy Form accompanying this Notice and by submitting their proxy appointment and voting instructions in person, by post or by facsimile.

### **VOTING IN PERSON (OR BY ATTORNEY)**

Shareholders, or their attorneys, who plan to attend the Meeting are asked to arrive at the venue 15 minutes prior to the time designated for the Meeting, if possible, so that their holding may be checked against the Company's share register and attendance recorded. Attorneys should bring with them an original or certified copy of the power of attorney under which they have been authorised to attend and vote at the Meeting.

### **BODIES CORPORATE**

A Shareholder which is a body corporate may appoint an individual to act as its representative and vote in person at the Meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which it is signed.

### **PROXIES**

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- Each Shareholder has a right to appoint a proxy. Shareholders entitled to cast two or more votes may appoint not more than two proxies.
- A proxy need not be a Shareholder.
- A Shareholder may specify the proportion or number of votes each appointed proxy may exercise. Where more than one proxy is appointed and the appointment does not specify the proportion or number of the Shareholder's votes each proxy may exercise, the votes will be divided equally among the proxies (i.e. where there are two proxies, each proxy may exercise half of the votes).
- If a proxy is not directed how to vote on an item of business, the proxy may vote, or abstain from voting, as they think fit.
- Should any Resolution, other than those specified in this Notice, be proposed at the Meeting, a proxy may vote on that Resolution as they think fit.
- If a proxy is instructed to abstain from voting on an item of business, they are directed not to vote on the Shareholder's behalf on the poll and the Shares that are the subject of the proxy appointment will not be counted in calculating the required majority.
- Shareholders who return their Proxy Forms with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the Chairman of the Meeting as their proxy to vote on their behalf. If a Proxy Form is returned but the nominated proxy does not attend the Meeting, the Chairman of the Meeting will act in place of the nominated proxy and vote in accordance with any instructions. Proxy appointments in favour of the Chairman of the Meeting, the secretary or any Director that do not contain a direction how to vote will be used where possible to support each of the Resolutions proposed in this Notice.
- To be effective, proxies must be lodged by 10:00 AM (WST) on Wednesday, 2 November 2016. Proxies lodged after this time will be invalid.

Proxies may be lodged by either returning a completed Proxy Form by post or in person to:

Security Transfer Registrars  
PO Box 52  
Collins Street West, VIC 8007

Street Address:  
Exchange Tower, Level 9, Suite 913  
530 Little Collins Street, MELBOURNE VIC 3000

or by faxing a completed Proxy Form to:

Fax: (+618) 9315 2233

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By order of the Board

A handwritten signature in black ink, appearing to read 'Grant Mooney'.

**Grant J Mooney**  
Company Secretary  
21 September 2016

A handwritten signature in black ink, appearing to read 'Aidan J Flynn'.

**Aidan J Flynn**  
Company Secretary  
21 September 2016

**CARNEGIE WAVE ENERGY LIMITED**

**EXPLANATORY MEMORANDUM**

This Explanatory Memorandum is intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice of Annual General Meeting of Carnegie Wave Energy Limited (the "**Company**").

This Explanatory Memorandum should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting. Details of the definitions and abbreviations are set out in Schedule 1.

**ANNUAL REPORT**

In accordance with section 317 of the Corporations Act, Shareholders will be offered the opportunity to discuss the Annual Report, including the Financial Report, the Directors' Report and the Auditor's Report for the financial year ended 30 June 2016.

There is no requirement for Shareholders to approve the Annual Report.

Shareholders will be offered the following opportunities:

- (a) discuss the Annual Report which is online at [www.carnegiewave.com](http://www.carnegiewave.com);
- (b) ask questions or make comment on the management of the Company; and
- (c) ask the auditor questions about the conduct of the audit and the preparation and content of the Auditor's Report.

In addition to taking questions at the Meeting, written questions to the Chairman about the management of the Company, or to the Company's auditor about:

- (a) the preparation and the content of the Auditor's Report;
- (b) the conduct of the audit;
- (c) accounting policies by the Company in relation to the preparation of financial statements; and
- (d) the independence of the auditor in relation to the conduct of the audit,

may be submitted no later than 5 business days before the Meeting to the Company Secretary at the Company's registered office.

**RESOLUTION 1 – REMUNERATION REPORT**

In accordance with subsection 250R(2) of the Corporations Act, the Company must put the Remuneration Report to the vote of Shareholders. The Directors' Report contains the Remuneration Report which sets out the remuneration policy for the Company and the remuneration arrangements in place for the executive Directors, specified executives and non-executive Directors.

In accordance with subsection 250R(3) of the Corporations Act, Resolution 1 is advisory only and does not bind the Directors of the Company. If Resolution 1 is not passed, the Directors will not be required to alter any of the arrangements in the Remuneration Report.

Division 9 of Part 2G.2 of the Corporations Act provides Shareholders with the opportunity to remove the whole Board except the managing director if the Remuneration Report receives a 'no' vote of 25% or more ("**Strike**") at two consecutive annual general meetings.

Where a resolution on the Remuneration Report receives a Strike at two consecutive annual general meetings, the Company will be required to put to Shareholders at the second annual general meeting a resolution on whether another meeting should be held (within 90 days) at which all Directors (other than the managing director) who were in office at the date of approval of the applicable Directors' Report must stand for re-election.

The Company's Remuneration Report did not receive a Strike at the 2015 annual general meeting. If the Remuneration Report receives a Strike at this Meeting, Shareholders should be aware that if a second Strike is received at the 2017 annual general meeting, this may result in the re-election of the Board.

The Chairman will allow reasonable opportunity for Shareholders to ask questions about or comment on the Remuneration Report.

Resolution 1 is an ordinary resolution.

The Chairman intends to exercise all available proxies in favour of Resolution 1.

If the Chairman is appointed as your proxy and you have not specified the way the Chairman is to vote on Resolution 1, by signing and returning the Proxy Form, you are considered to have provided the Chairman with an express authorisation for the Chairman to vote the proxy in accordance with the Chairman's intention, even though the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel of the Company.

#### **RESOLUTION 2 – RE-ELECTION OF MR MICHAEL FITZPATRICK AS A DIRECTOR**

Clause 13.2 of the Constitution requires that at an annual general meeting one-third of Directors, excluding the Managing Director, for the time being shall retire from office. A retiring Director is eligible for re-election. Listing Rule 14.4 requires that a Director, excluding the Managing Director, must not hold office without re-election past the third annual general meeting following the Director's appointment or three years, whichever is longer.

In accordance with the Constitution and Listing Rule 14.4, Mr Mike Fitzpatrick retires by way of rotation as a Director and being eligible, offers himself for re-election as a Director. Mr Fitzpatrick was appointed as a Director of the Company on 28 November 2012. He was most recently re-elected as a Director at the annual general meeting of the Company held on 1 November 2013.

Mr Fitzpatrick has over 37 years' experience 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 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 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.

The Board (excluding Mr Fitzpatrick) recommends that Shareholders vote in favour of Resolution 2.

#### **RESOLUTION 3 – RE-ELECTION OF MR JOHN LEGGATE AS A DIRECTOR**

Clause 13.2 of the Constitution requires that at an annual general meeting one-third of Directors, excluding the Managing Director, for the time being shall retire from office. A retiring Director is eligible for re-election. Listing Rule 14.4 requires that a Director, excluding the Managing Director, must not hold office without re-election past the third annual general meeting following the Director's appointment or three years, whichever is longer.

In accordance with the Constitution and Listing Rule 14.4, Mr John Leggate retires by way of rotation as a Director and being eligible, offers himself for re-election as a Director. Mr Leggate was appointed as a Director of the Company in 2011. He was most recently re-elected as a Director at the annual general meeting of the Company held on 7 November 2014.

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.

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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.

The Board (excluding Mr Leggate) recommends that Shareholders vote in favour of Resolution 3.

### RESOLUTION 4 – APPROVAL OF 10% PLACEMENT FACILITY

#### General

Listing Rule 7.1A enables eligible entities to issue Equity Securities up to 10% of their issued share capital through placements over a 12 month period after the annual general meeting (**10% Placement Facility**). The 10% Placement Facility is in addition to the Company's 15% placement capacity under Listing Rule 7.1.

An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less. The Company is an eligible entity. Based on the closing price of the Company's shares on 21 September 2016, the Company has a market capitalisation of approximately \$54 million.

The Company is now seeking Shareholder approval by way of a special resolution to have the ability to issue Equity Securities under the 10% Placement Facility.

The exact number of Equity Securities to be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2.

As disclosed in the Company's quarterly activities reports, the Company is continuing its strategy of the targeted pursuit of commercial opportunities for CETO in Australia and internationally. The Company may use the 10% Placement Facility to participate in these commercial opportunities. The 10% Placement Facility was previously approved at the 2013, 2014 and 2015 AGMs and was not utilised in any of these years.

The Directors of the Company believe that Resolution 4 is in the best interests of the Company and unanimously recommend that Shareholders vote in favour of this Resolution.

#### Description of Listing Rule 7.1A

(a) Shareholder approval

The ability to issue Equity Securities under the 10% Placement Facility is subject to Shareholder approval by way of a special resolution at an annual general meeting.

(b) Equity Securities

Any Equity Securities issued under the 10% Placement Facility must be in the same class as an existing quoted class of Equity Securities of the Company.

The Company, as at the date of the Notice, has on issue one class of quoted Equity Securities, Shares.

(c) Formula for calculating 10% Placement Facility

Listing Rule 7.1A.2 provides that eligible entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the 12 month period after the date of the annual general meeting, a number of Equity Securities calculated in accordance with the following formula:

$$(A \times D) - E$$

where:

**A** is the number of shares on issue 12 months before the date of issue or agreement:

(A) plus the number of fully paid shares issued in the 12 months under an exception in Listing Rule 7.2;

(B) plus the number of partly paid shares that became fully paid in the 12 months;

(C) plus the number of fully paid shares issued in the 12 months with approval of holders of shares under Listing Rule 7.1 and 7.4. This does not include an issue of fully paid shares under the entity's 15% placement capacity without shareholder approval; and

(D) less the number of fully paid shares cancelled in the 12 months.

*Note that A is has the same meaning in Listing Rule 7.1 when calculating an entity's 15% placement capacity.*

**D** is 10%.

**E** is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of shareholders under Listing Rule 7.1 or 7.4.

(d) Listing Rule 7.1 and Listing Rule 7.1A

The ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity under Listing Rule 7.1.

At the date of this Notice, the Company has on issue 1,997,849,888 Shares and currently has a capacity to issue:

- (i) 125,474,836 Equity Securities under Listing Rule 7.1; and
- (ii) subject to Shareholder approval being provided under Resolution 4, 192,276,684 Equity Securities under Listing Rule 7.1A.

The actual number of Equity Securities that the Company will have capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2.

(e) Minimum Issue Price

The issue price of Equity Securities issued under Listing Rule 7.1A must be not less than 75% of the VWAP of Equity Securities in the same class calculated over the 15 Trading Days on which trades in that class were recorded immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) if the Equity Securities are not issued within 5 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued.

(f) 10% Placement Period

Shareholder approval of the 10% Placement Facility under Listing Rule 7.1A is valid from the date of the annual general meeting at which the approval is obtained and expires on the earlier to occur of:

- (i) the date that is 12 months after the date of the annual general meeting at which the approval is obtained; or
- (ii) the date of the approval by shareholders of a transaction under Listing Rules 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

or such longer period if allowed by ASX (**10% Placement Period**).

#### **Listing Rule 7.1A**

The effect of Resolution 4 will be to allow the Directors to issue the Equity Securities under Listing Rule 7.1A during the 10% Placement Period without using the Company's 15% placement capacity under Listing Rule 7.1.

Resolution 4 is a special resolution and therefore requires approval of 75% of the votes cast by Shareholders present and eligible to vote (in person, by proxy, by attorney or, in the case of a corporate Shareholder, by a corporate representative).

#### **Specific information required by Listing Rule 7.3A**

Pursuant to and in accordance with Listing Rule 7.3A, information is provided in relation to the approval of the 10% Placement Facility as follows:

- (a) The Equity Securities will be issued at an issue price of not less than 75% of the VWAP for the Company's Equity Securities over the 15 Trading Days on which trades in that class were recorded immediately before:
  - (i) the date on which the price at which the Equity Securities are to be issued is agreed; or



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- (ii) if the Equity Securities are not issued within 5 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued.
- (b) If Resolution 4 is approved by Shareholders and the Company issues Equity Securities under the 10% Placement Facility, the existing Shareholders' voting power in the Company will be diluted as shown in the below table (in the case of Options, only if the Options are exercised). There is a risk that:
- (i) the market price for the Company's Equity Securities may be significantly lower on the date of the issue of the Equity Securities than on the date of the Meeting; and
- (ii) the Equity Securities may be issued at a price that is at a discount to the market price for the Company's Equity Securities on the issue date or the Equity Securities are issued as part of consideration for the acquisition of a new asset,

which may have an effect on the amount of funds raised by the issue of the Equity Securities.

The below table shows the dilution of existing Shareholders on the basis of the current market price of Shares and the current number of ordinary securities for variable "A" calculated in accordance with the formula in Listing Rule 7.1A.2 as at the date of this Notice.

The table also shows:

- (i) two examples where variable "A" has increased, by 50% and 100%. Variable "A" is based on the number of ordinary securities the Company has on issue. The number of ordinary securities on issue may increase as a result of issues of ordinary securities that do not require Shareholder approval (for example, a pro rata entitlements issue or scrip issued under a takeover offer) or future specific placements under Listing Rule 7.1 that are approved at a future Shareholders' meeting; and
- (ii) two examples of where the issue price of ordinary securities has decreased by 50% and increased by 50% as against the current market price.

Variable 'A' in Listing Rule 7.1A.2		Dilution		
		\$0.014 50% decrease in Issue Price	\$0.027 Issue Price	\$0.054 100% increase in Issue Price
<b>Current Variable A</b> 1,922,766,841 Shares	<b>10% Voting Dilution</b>	192,276,684 Shares	192,276,684 Shares	192,276,684 Shares
	<b>Funds raised</b>	\$2,595,735	\$5,191,470	\$10,382,941
<b>50% increase in current Variable A</b> 2,884,150,261 Shares	<b>10% Voting Dilution</b>	288,415,026 Shares	288,415,026 Shares	288,415,026 Shares
	<b>Funds raised</b>	\$3,893,603	\$7,787,206	\$15,574,411
<b>100% increase in current Variable A</b> 3,845,533,681 Shares	<b>10% Voting Dilution</b>	384,553,368 Shares	384,553,368 Shares	384,553,368 Shares
	<b>Funds raised</b>	\$5,191,470	\$10,382,941	\$20,765,882

**The table has been prepared on the following assumptions:**

- (A) The Company issues the maximum number of Equity Securities available under the 10% Placement Facility.
- (B) No Options (including any Options issued under the 10% Placement Facility) are exercised into Shares before the date of the issue of the Equity Securities.

- (C) The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
  - (D) The table does not show an example of dilution that may be caused to a particular Shareholder by reason of placements under the 10% Placement Facility, based on that Shareholder's holding at the date of the Meeting.
  - (E) The table shows only the effect of issues of Equity Securities under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1.
  - (F) The issue of Equity Securities under the 10% Placement Facility consists only of Shares. If the issue of Equity Securities includes Options, it is assumed that those Options are exercised into Shares for the purpose of calculating the voting dilution effect on existing Shareholders.
  - (G) The issue price is \$0.027, being the closing price of the Shares on ASX on 21 September 2016.
- (c) The Company will only issue and allot the Equity Securities during the 10% Placement Period. The approval under Resolution 4 for the issue of the Equity Securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities or Listing Rule 11.2 (disposal of main undertaking)).
- (d) The Company may seek to issue the Equity Securities for the following purposes:
- (i) non-cash consideration for the development of the CETO wave energy technology and/or general working capital including the potential acquisition of new assets and investments. In such circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3; or
  - (ii) cash consideration. In such circumstances, the Company intends to use the funds raised towards development of the CETO wave energy technology and/or general working capital including the potential acquisition of new assets or investments (including expense associated with such acquisition).

The Company will comply with the disclosure obligations under Listing Rules 7.1A.4 and 3.10.5A upon issue of any Equity Securities.

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Placement Facility. The identity of the allottees of Equity Securities will be determined on a case-by-case basis having regard to the factors including but not limited to the following:

- (i) the methods of raising funds that are available to the Company, including but not limited to, rights issue or other issue in which existing security holders can participate;
- (ii) the effect of the issue of the Equity Securities on the control of the Company;
- (iii) the financial situation and solvency of the Company; and
- (iv) advice from corporate, financial and broking advisers (if applicable).

The allottees under the 10% Placement Facility have not been determined as at the date of this Notice but may include existing substantial Shareholders and/or new Shareholders who are not related parties or associates of a related party of the Company.

Further, if the Company is successful in acquiring new assets or investments, it is likely that the allottees under the 10% Placement Facility will be the vendors of the new assets or investments.

- (e) The Company has previously obtained Shareholder approval under Listing Rule 7.1A at its Annual General Meetings held in 2013, 2014 & 2015 but not utilised the facility in any of these years. In the 12 months preceding the date of the 2016 Annual General Meeting, the Company has issued 230,154,761 Equity Securities and this represents 13.2% of the total number of Equity Securities on issue at the commencement of that 12 month period. Details of each issue of Equity Securities by the Company during the 12 months preceding the date of the 2016 Annual General Meeting are set out in the table below:

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Date of Issue	Number of Securities	Type of Security	Recipient of Security	Issue price and details of any discount to Market Price <sup>1</sup>	Consideration & use of funds as at the date of the Notice
19/04/2016	44,117,647	Share	Clean Energy Investment Holdings Limited (formerly EMC Limited)	Nil issue price (non-cash consideration)	Consideration: Part consideration for the acquisition of 35% of the Energy Made Clean group as announced on 22 March 2016.  Current value <sup>2</sup> = \$1,191,176  The Shares were issued for nil cash consideration and therefore no funds were raised as a result of the issue.
27/11/2015	1,204,945	Share	Convertible Note holders	Nil issue price (non-cash consideration)	Consideration: Issued as a non-cash 6% p.a. coupon paid quarterly, in accordance with the terms of the Convertible Notes as announced on 18 November 2013.  Current value <sup>2</sup> = \$32,534  The Shares were issued for nil cash consideration and therefore no funds were raised as a result of the issue.
27/11/2015	155,071,714	Share	Existing Shareholders	\$0.042 (discount of 11% to Market Price)	\$6,513,012 of which none has been spent as at the date of this notice. The funds will be used to fund development of the CETO 6 project, the Garden Island Microgrid project and for working capital purposes.
27/11/2015	25,215,000	Share	Shares issued to sophisticated investors (predominantly existing Shareholders)	\$0.042 (discount of 11% to Market Price)	\$1,059,030 of which none has been spent as at the date of this notice. The funds will be used to fund development of the CETO 6 project, the Garden Island Microgrid project and for working capital purposes.
20/11/2015	4,545,455	Share	Clean Energy Finance Corporation	Nil issue price (non-cash consideration)	Consideration: Issued in lieu of a cash payment to the Clean Energy Finance Corporation as the termination fee in accordance with the conditions of the five year \$20 million loan facility as announced on 19 March 2014.  Current value <sup>2</sup> = \$122,727  The Shares were issued for nil cash consideration and therefore no funds were raised as a result of the issue.
20/11/2015	3,690	Convertible Notes <sup>3</sup>	Re-issued to sophisticated investors (predominantly existing Shareholders)	\$1,000 per Convertible Note.  Conversion price of \$0.042 (discount of 2% to market price)	\$3,690,000 of which none has been spent as at the date of this notice. If the convertible notes are converted to equity the funds will be used to fund development of the CETO 6 project, the Garden Island Microgrid project and for working capital purposes.

**Notes:**

1. Market Price means the closing price on ASX (excluding special crossings, overnight sales and exchange traded option exercises). For the purposes of this table the discount is calculated on the Market Price on the last Trading Day on which a sale was recorded prior to the date of issue of the relevant Equity Securities.
2. The value of the Shares is based on the closing price of the Shares (\$0.027) on ASX on 21 September 2016.
3. As part of re financing the Company's senior loan facility from the Clean Energy Finance Corporation to the Commonwealth Bank of Australia the terms of 3,690 Convertible Notes ("Notes") of face value \$1,000 each were changed to modify the conversion price to \$0.042. This resulted in the deemed re-issue of the existing Notes. The Notes can be converted at any time to Shares at a conversion price of \$0.042. Conversion of all Notes would result in the issue of 87,857,143 Shares.

## **Notice of Annual General Meeting CARNEGIE WAVE ENERGY LIMITED**

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- (f) A voting exclusion statement is included in the Notice. At the date of the Notice, the Company has not approached any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in the issue of the Equity Securities. No existing Shareholder's votes will therefore be excluded under the voting exclusion in the Notice.

### **RESOLUTION 5 – APPROVAL OF EMPLOYEE SHARE AND OPTION PLAN**

#### **General**

On 14 September 2010 the Company adopted the "Carnegie Wave Energy Limited Employee Share Option Plan 2010". The Plan was re-approved/refreshed in accordance with regulatory requirements at the Annual General Meeting of the Company on 1 November 2013.

Following recent amendments to taxation laws regarding employee incentive schemes, the Directors considered it desirable to establish a new option plan under which employees could be offered the opportunity to subscribe for Options to acquire Shares in order to increase the range of potential incentives available to them and to strengthen links between the Company and its employees. Accordingly, Resolution 5 seeks Shareholders' approval for the adoption of the employee share option plan titled "Carnegie Wave Energy Limited Employee Share Option Plan 2016" ("**Plan**") in accordance with Listing Rule 7.2 Exception 9(b).

The Plan is designed to provide incentives to the employees of the Company and to recognise their contribution to the Company's success. Under the Company's current circumstances the Directors consider that the incentives to employees are a cost effective and efficient incentive for the Company as opposed to alternative forms of incentives such as cash bonuses or increased remuneration. To enable the Company to secure employees and Directors who can assist the Company in achieving its objectives, it is necessary to provide remuneration and incentives to such personnel. The Plan is designed to achieve this objective, by encouraging continued improvement in performance over time and by encouraging personnel to acquire and retain significant shareholdings in the Company.

Under the Plan, the Board may offer to Eligible Persons the opportunity to subscribe for such number of Employee Options in the Company as the Board may decide and on the terms set out in the rules of the Plan, a summary of which is contained at Schedule 2 of this Explanatory Memorandum. Employee Options granted under the Plan will be offered to participants in the Plan on the basis of the Board's view of the contribution of the Eligible Person to the Company.

#### **Listing Rule 7.1 and Listing Rule 7.2 Exception 9(b)**

Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more Equity Securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

Listing Rule 7.2, Exception 9(b) provides an exception to Listing Rule 7.1 by which Equity Securities issued under an employee incentive scheme are exempt for a period of 3 years from the date on which shareholders approve the issue of Equity Securities under the scheme as an exception to Listing Rule 7.1.

If Resolution 5 is passed, the Company will be able to issue Equity Securities under the Plan to eligible participants over a period of 3 years without impacting on the Company's ability to issue up to 15% of its total ordinary securities without Shareholder approval in any 12 month period.

Prior Shareholder approval will be required under Listing Rule 10.14 before any Director or related party of the Company can participate in the Plan.

Pursuant to the Listing Rules, Shareholders must re-approve the Plan and all unissued Options issuable pursuant thereto every 3 years.

In accordance with the requirements of Listing Rule 7.2 Exception 9(b) the following information is provided:

- (a) a summary of the rules of the Plan is contained at Schedule 2 of this Explanatory Memorandum;
- (b) no Equity Securities have been issued under the current Plan as it is a new employee incentive scheme and has not been previously approved by Shareholders; and
- (c) a voting exclusion statement is included with the Notice.

**SCHEDULE 1 – GLOSSARY**

**10% Placement Facility** has the meaning given in the Explanatory Memorandum for Resolution 4.

**10% Placement Period** has the meaning given in the Explanatory Memorandum for Resolution 4.

**Annual Report** means the Financial Report, the Directors' Report and the Auditor's Report, in respect to the year ended 30 June 2016.

**ASX** means ASX Limited ABN 98 008 624 691 and, where the context permits, the Australian Securities Exchange operated by ASX Limited.

**Auditor's Report** means the auditor's report on the Financial Report.

**Board** means the board of Directors.

**Chairman** means the chair appointed for the Meeting.

**Closely Related Party** means:

- (a) a spouse or child of a member; or
- (b) has the meaning given in section 9 of the Corporations Act.

**Company** means Carnegie Wave Energy Limited ABN 69 009 237 736.

**Constitution** means the constitution of the Company.

**Corporations Act** means *Corporations Act 2001* (Cth).

**Director** means a director of the Company.

**Directors' Report** means the annual directors' report prepared under Chapter 2M of the Corporations Act for the Company and its controlled entities.

**Employee Option** means an Option issued pursuant to the Carnegie Wave Energy Limited Employee Share Option Plan 2010.

**Equity Security** has the meaning given in the Listing Rules and **Equity Securities** has the corresponding meaning.

**Explanatory Memorandum** means this explanatory memorandum.

**Financial Report** means the annual financial report prepared under Chapter 2M of the Corporations Act for the Company and its controlled entities.

**Key Management Personnel** means persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise).

**Listing Rules** means the listing rules of the ASX.

**Meeting** has the meaning given in the introductory paragraph of the Notice.

**Notice** means the notice of Annual General Meeting which accompanies this Explanatory Memorandum.

**Option** means an option to acquire a Share.

**Plan** means the Carnegie Wave Energy Limited Employee Share Option Plan 2016.

**Proxy Form** means the proxy form attached to the Notice.

**Remuneration Report** means the remuneration report of the Company for the financial year ended 30 June 2016 (unless otherwise stated) as set out in the Directors' Report contained in the 2016 Annual Report to Shareholders.

**Resolution** means a resolution proposed pursuant to the Notice.

**Share** means an ordinary fully paid share in the capital of the Company.

**Shareholder** means the registered holder of a Share.

**Trading Days** has the meaning given in the Listing Rules.

**VWAP** means the volume weighted average price.

**WST** means Australian Western Standard Time.

**SCHEDULE 2 – SUMMARY OF EMPLOYEE SHARE OPTION PLAN 2016**

**1. Eligible participants**

Directors, employees and contractors of the Company or an entity controlled by or which controls the Company are "Eligible Persons" under the Plan.

The Board may from time to time make offers in writing to Eligible Persons inviting them to take up Options under the Plan.

Options may not be offered to a Director or his or her associates except where approval is given by the Shareholders in general meeting in accordance with the requirements of the Listing Rules.

**2. Limit to number of Options offered under the Plan**

Offers may only be made under the Plan in reliance on ASIC Class Order CO14/1000 ("**Class Order**") if the Board has reasonable grounds to believe that the total number of Shares that may be acquired on exercise of the Options offered under that Offer, when aggregated with the number of Shares issued or that may be issued as a result of offers made at any time during the previous 3 year period under:

- (a) the Plan or any other employee incentive scheme in reliance on the Class Order; or
- (b) an ASIC exempt arrangement of a similar kind to an employee incentive scheme,

but disregarding any offer made, Option acquired or Shares issued by way of or as a result of:

- (c) an offer to a person situated at the time of receipt of the offer outside Australia;
- (d) an offer that did not need disclosure to investors because of section 708 of the Corporations Act. Section 708 exempts the requirement of a disclosure document for the issue of securities in certain circumstances to investors who are deemed to have sufficient investment knowledge to make informed decisions, including professional investors, sophisticated investors and senior managers of the Company; or
- (e) an offer made under a disclosure document,

would exceed 5% (or such other maximum permitted under any ASIC class order providing relief from the disclosure regime of the Corporations Act) of the total number of issued Shares in the Company as at the time of making the offer.

**3. Award of Options**

The Directors will administer the Plan awarding Options to acquire Shares in the Company to Eligible Persons. The selection of persons to whom the Shares will be offered under the Plan, the number of Shares which may be offered to those persons, and any performance criteria that may apply before the Options may be exercised will be determined wholly by the Directors in their absolute discretion and in compliance with the Listing Rules.

**4. Expiration of Options**

A vested Option will lapse on its expiry date. An unvested Option will lapse upon the earlier of its expiry date, voluntary resignation of the employee or voluntary termination of the consultancy contract, or the holder acting fraudulently or dishonestly in relation to the Company (unless the Board resolves otherwise within 30 days of any such event occurring).

**5. Quotation**

The Options will not be quoted on ASX but the Company will apply to the ASX for quotation of all Shares issued under the Plan within the period required by ASX.

**6. Transfer of Options**

Subject to the Listing Rules and except on death of a participant, Options may not be transferred, assigned or novated without the prior approval of the Board.

**7. Participation in new issues**

There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital which may be offered to Shareholders from time to time prior to the relevant expiry date without exercising the Options.

The Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 3 business days after the issue is announced. This will give Option holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.

#### **8. Adjustments to Options**

If the Company makes a pro rata issue of securities (except a bonus issue) to the Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) the exercise price of the Options shall be reduced as determined by the Board in its sole discretion in accordance with the Listing Rules.

In the event of a bonus issue of Shares being made pro rata to Shareholders, (other than an issue in lieu of dividends), the number of Shares issued on exercise of each Option will include the number of bonus Shares that would have been issued if the Option had been exercised prior to the record date for the bonus issue. No adjustment will be made to the exercise price per Share of the Option.

If at any time the capital of the Company is reorganised (including by way of a consolidation, subdivision, reduction or cancellation), the terms of the Options will be changed in a manner consistent with the Corporations Act and the Listing Rules at the time of the reorganisation.

#### **9. Death or permanent disability of participant**

An Option will lapse after one year of a participant's death, permanent disability, redundancy or other reason which the Board considers fair and reasonable to warrant the participant maintaining his or her right to the Options.

#### **10. Administration of the Plan**

The Plan will be administered by the Board which has the power to:

- (a) determine appropriate procedures for the administration of the Plan consistent with the Rules;
- (b) delegate such functions and powers as it may determine consider appropriate for the exercise of the Plan to a person or persons;
- (c) resolve conclusively all questions of fact, interpretation or application in connection with the Plan and offers of Options under the Plan; and
- (d) act or refrain from acting under or in connection with the Plan or any Options and in the exercise of any power or discretion granted to it by the Plan, except as otherwise expressly provided in the Plan.

#### **11. Amendment of the Plan**

The Board may amend the Plan if the amendment is of a formal, minor or technical nature or is made to correct a manifest error. Other amendments require Shareholder approval.

#### **12. Termination or suspension of the Plan**

The Plan may be terminated or suspended at any time by resolution of the Board and notification thereof to the ASX, if required.