

## ASX Announcement

Tuesday, 27<sup>th</sup> October 2015



### Report to Shareholders for the Quarter Ended

**30<sup>th</sup> September 2015**

#### ACTIVITIES SUMMARY

During the quarter, Carnegie Wave Energy Limited (ASX: CWE) continued to operate its flagship project, the Perth Wave Energy Project, which has continued to break operational hour records in the wave energy industry, with the CETO units now exceeding 14,000 hours of cumulative operation. While the units continued to operate, Carnegie was able to perform an offshore "hot swap", without disruption to normal plant operations.

Carnegie's next project, CETO 6 at Garden Island also achieved a significant milestone, with the concept design being completed. The concept design, along with the recently completed offshore geophysical survey works will inform the detailed design phase of the CETO 6 Garden Island project, which is on track for completion in 2016.

Finally, Carnegie made progress with its commercialisation strategy of focusing on two key CETO markets; the European/United Kingdom market and the remote island market. In the latter, Carnegie and MAK Water agreed to extend their desalination agency relationship to remote islands commenced work on opportunities in the Indian Ocean and Carnegie signed MOUs with both Mauritius and the Seychelles to collaborate on wave energy and island microgrid projects.

Highlights from the quarter include:

- Financials
  - AU\$14 million cash at bank
  - AU\$14 million undrawn Government grants
  - AU\$20 million undrawn debt facility
- Perth Project:
  - Project produces world-first wave powered desalinated water
  - Project reaches record breaking 14,000 operational hours
  - CETO 5 Unit #1 swapped for Unit #2
- CETO 6
  - Concept design phase complete
  - Offshore geophysical surveys complete
- Project Pipeline
  - Further development of the company's commercialisation strategy
  - EU/UK: presentations at key conferences in France, Scotland and Ireland
  - Islands: Memorandums of Understanding signed with Mauritius and the Seychelles and extension of MAK water agency to islands
- Winner of Clean Energy Council award and named as one of BRW magazine's Top 50 Most Innovative Companies

## 1. Perth Wave Energy Project



### ***CETO 5 Unit #1 Successfully Swapped for Unit #2***

During the quarter, Carnegie reinforced its operation and maintenance “hot swap” strategy by successfully retrieving CETO 5 Unit #2 and deploying the refurbished CETO 5 Unit #1 in its place while the plant continued to operate.



**CETO 5 Unit #1 prepared for deployment in floating dock at the AMC, Henderson, WA**

The offshore “hot swap” activities were deliberately carried out in a higher sea state to validate the robust maintenance methodology and demonstrate the CETO system’s interchangeability across multiple unit locations.

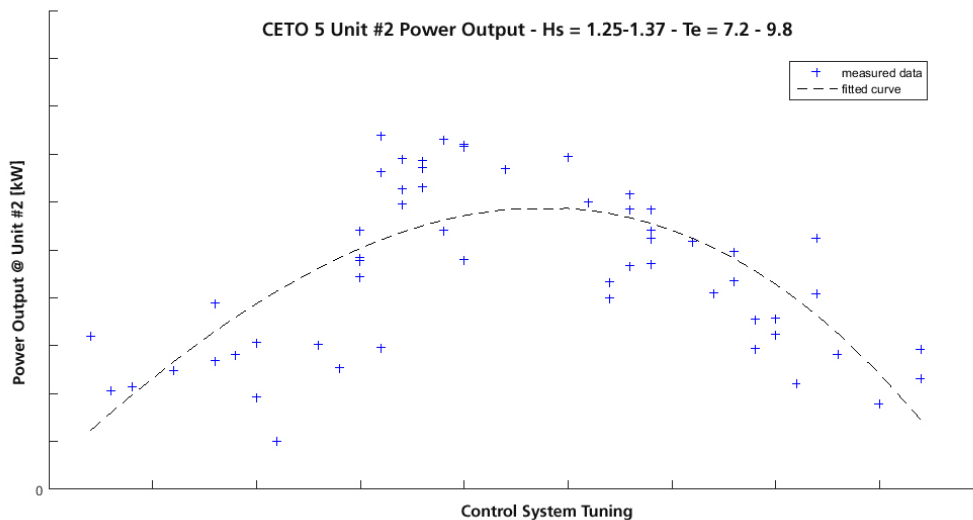
The successful retrieval and re-deployment of a refurbished CETO unit has validated Carnegie’s overall operation and maintenance strategy, learnings from which are being fed directly into the CETO 6 detailed design phase.

### ***Perth Project Operation and Performance***

One of the primary aims of the Perth Project has been to gather performance data in order to validate Carnegie’s proprietary computational models, demonstrate and optimise installation and operational strategies to prove system reliability and performance, and to inform the design of the CETO 6 system. To that end, having had units operate through four seasons, for over 14,000 hours, across a range of sea states, including wave heights of up to 5.8m, has been invaluable, and indeed unprecedented in the wave energy industry.

The consistent winter swells has allowed the Carnegie operational and analysis team to run real time optimisation strategies over an extended time period and in real, operational conditions, in order to maximise power production for a specific sea state. To achieve this, the operational team deliberately “under dampen” and “over dampen” the CETO system to find the optimum system settings against a variety of sea states. The results can then be compared back to computational model forecasts and used to inform performance of CETO 6. An

effective control strategy offers higher system performance which, in conjunction with increasing scale of the CETO unit, drive improved unit production costs.



**Example of modelled vs. measured results showing the importance of a specific CETO's control variable on system performance**

The importance of optimum control settings on power output reinforces one of the main drivers for co-locating the power generation inside the CETO 6 buoy in order to minimise any lag in the response time that occurs when the power plant is onshore. It also means that, quite apart from the proprietary knowledge and patents that Carnegie has over the hardware in the CETO system, significant value resides in operating set points, control algorithms and trade secrets. The control function learnings are now being fed directly into the CETO 6 detailed design phase.

### ***Wave Powered Desalination***

Carnegie also announced the production of the world's first wave powered desalinated water with its seawater reverse osmosis plant on Garden Island now fully integrated and operational. The desalination pilot plant was successfully commissioned off the electricity grid earlier this year, and is now fully integrated with the CETO wave energy power plant, meaning that the desalination plant is capable of running both off the grid and directly off hydraulic power from Carnegie's wave project, or a combination of both.

The first bottle of wave-powered desalinated water produced was presented to the Western Australian Minister for Water the Honourable Mia Davies MLA at the Australian Water Association's (AWA) Annual Western Australian Conference by Carnegie's Chief Operating Officer, Greg Allen. Mr Allen presented on wave energy integrated desalination at the Conference timed to coincide with National Water Week.



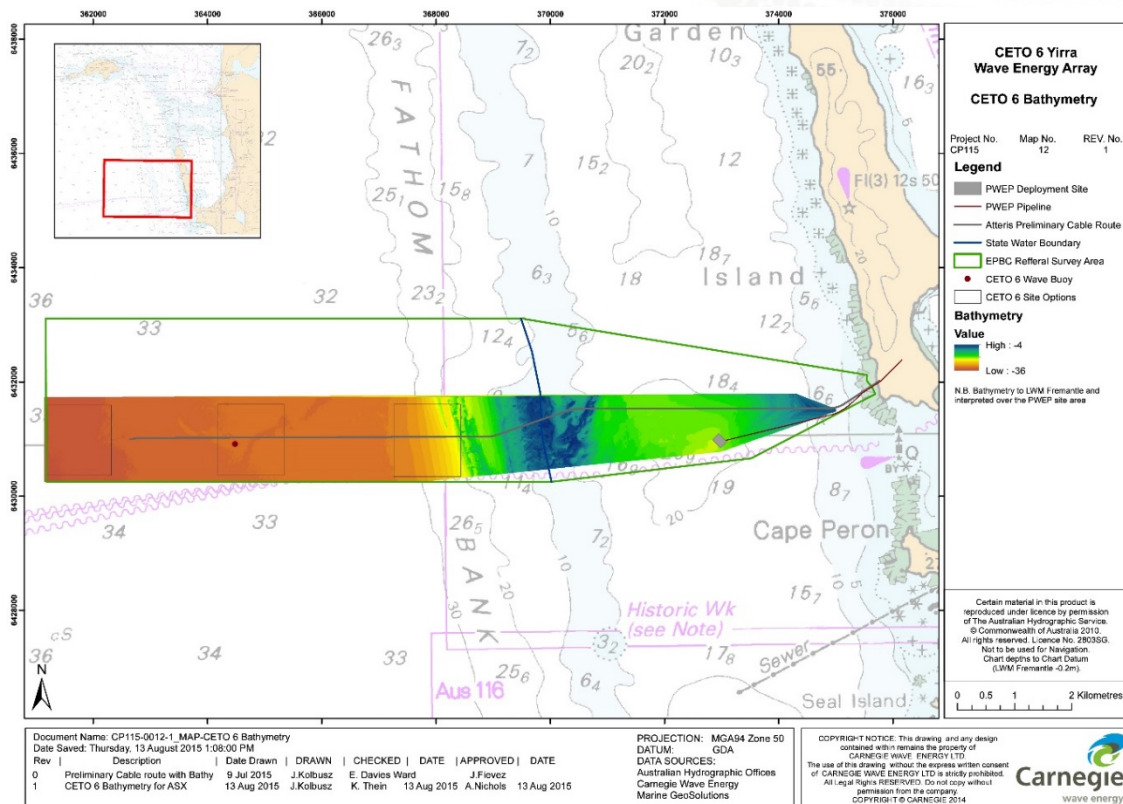


**WA Water Minister the Hon Mia Davies being presented with the first bottle of wave powered bottle desalinated water by Carnegie Chief Operating Officer, Greg Allen**

## **2. CETO 6 Garden Island Developments**

### ***Geophysical Surveys Complete***

During the quarter, Carnegie completed the offshore geophysical and environmental site surveys for the CETO 6 Garden Island project. Such surveys provide important information on the seabed properties that affect the design and installation methodologies for key elements including the foundations that hold the units to the seabed and subsea cables that export power back to shore. Detailed analysis of the survey data, has allowed a preferred site to be identified, and will now feed directly into the detailed design phase.



### CETO 6 Geophysical Survey Area

The geophysical survey also forms a key input to the environmental approvals process for the Project, providing valuable information on seabed habitat that form part of assessing the projects potential environmental impacts and management strategies. The benthic (seabed) habitat of the CETO6 sites were found to be typical of those on the western side of Garden Island. Further environmental impact analysis will not be undertake by Carnegie's recently appointed environmental advisors, BMT Oceanica, which will also feed into the CETO 6 design. Carnegie has also commenced detailed stakeholder consultation with key consultees including the Australian Department of Environment, Western Australian Department of Fisheries and Australian Department of Defence.





**Sample of benthic habitats mapped in the offshore CETO 6 Garden Island site**

The findings of the the geophysical surveys and ongoing stakeholder consultation for the CETO 6 Garden Island project were presented at ARENA's technology showcase, an invitation-only event held at Parliament House, Canberra.

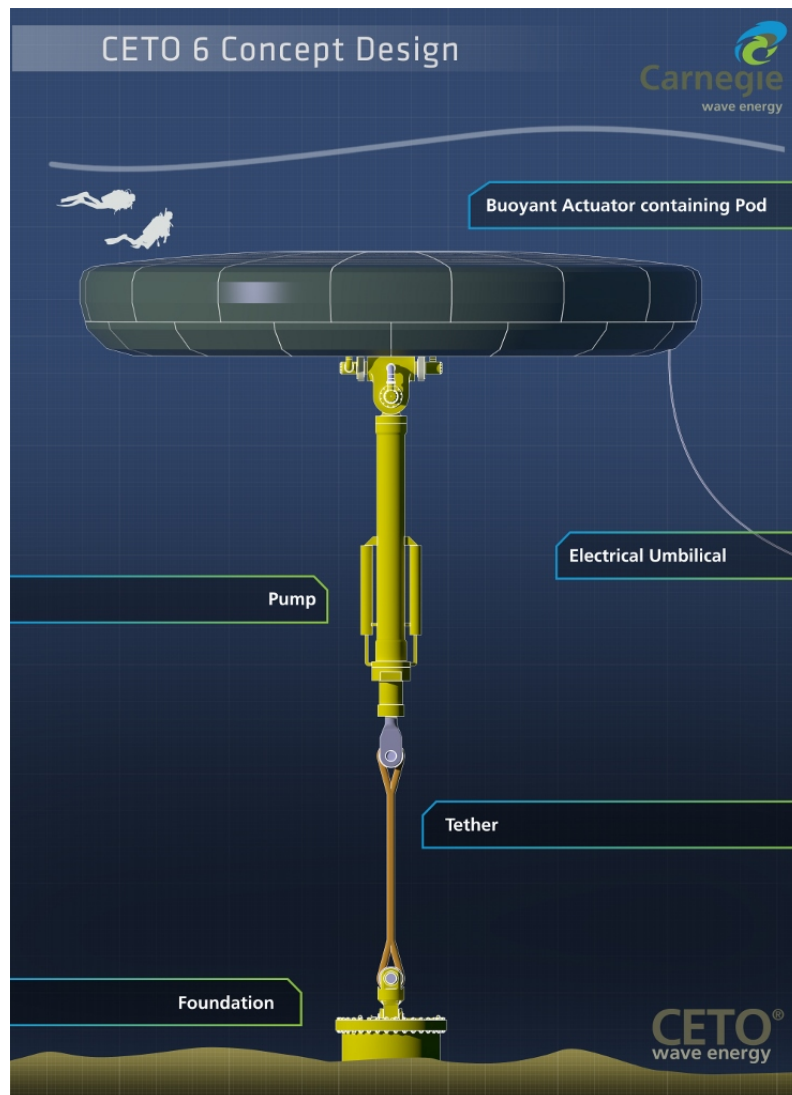


**Carnegie's Chief Financial Officer at ARENA's Technology Showcase, Parliament House, Canberra**

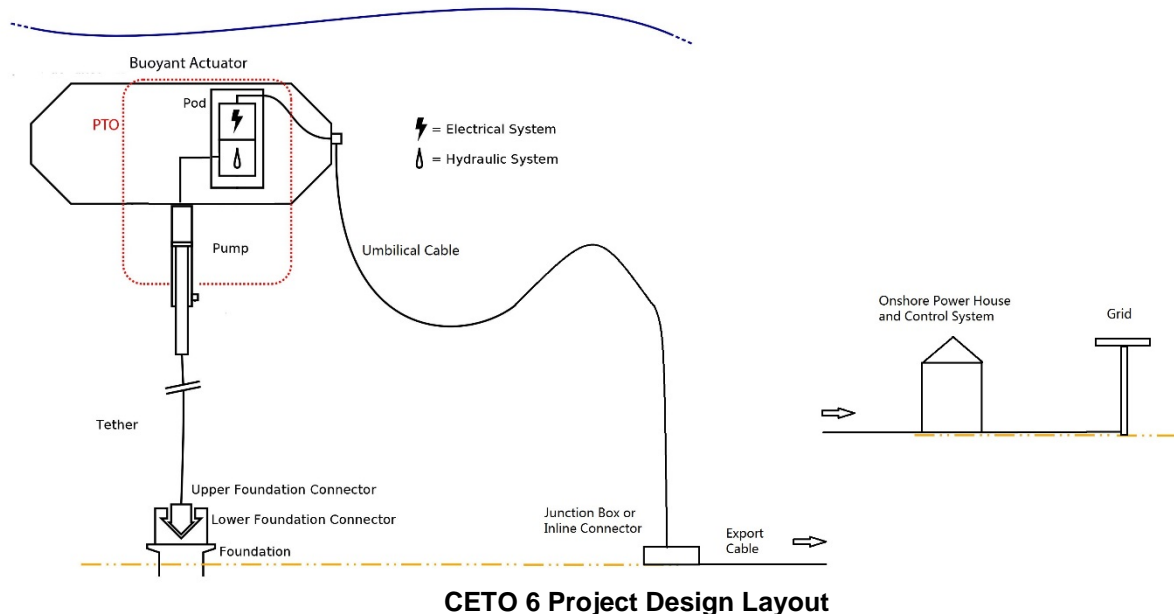
## Concept Design Complete

The CETO 6 concept design phase was completed, and incorporates lessons learnt from the Perth Wave Energy Project, recent wave tank testing in Scotland, design work with the CETO supply chain, offshore surveys, and Carnegie's in house design work.

This CETO 6 design delivers a number of advantages over previous CETO generations including an approximate four times increase in rated capacity to 1MW, the removal of heavy offshore lifts (and associated costly heavy lift vessels), simplified installation and maintenance and more advanced control systems offering higher energy yield. The system locates the power generation (power take off or PTO) inside a contained vessel (Pod) housed within the buoy. The concept design phase covered a wide range of disciplines and project work package areas including hydrodynamic modelling, wave tank testing, electrical typology, offshore site studies, grid connection, instrumentation and controls, power take off architecture, installation and maintenance philosophies and tether and mooring options.



CETO 6 Conceptual Design



### 3. Corporate Activities

#### ***\$4m Scottish Government Grant***

Carnegie's 100% owned subsidiary, CWE UK, as part of a consortium was awarded an AU \$4.3m (£2m) grant from the Scottish Government's Wave Energy Scotland (WES) for the development of a universal Power Take Off (PTO) system, known as WavePOD, to convert mechanical energy to electricity. CWE UK, alongside Scottish wave developer Aquamarine Power and global drive and control manufacturer Bosch Rexroth, will design, deliver and test a 1/10<sup>th</sup> scale prototype of the PTO, full scale system design and specifications for subsequent integration into a full scale CETO device following on from the current CETO 6 Garden Island Project. The award of the grant is subject to signing the WES funding agreement.

The WavePOD PTO system will be located inside the CETO 6 buoyant actuator and converts the hydraulic and mechanical energy from the CETO hydraulic cylinder into electricity for export back ashore to the electrical grid. The WavePOD system will be targeted for use in 2018, as part of Carnegie's first UK project, following the delivery of Carnegie's CETO 6 Project off Garden Island in Western Australia.

Separately, Carnegie is working with Bosch Rexroth on the design of the PTO for the CETO 6 Garden Island Project.



### **Milestone Payments**

Carnegie received \$19,961 from the Australian Renewable Energy Agency (ARENA) during the quarter for successful completion of an operational progress milestone for the Perth Wave Energy Project. A further operational progress milestone payment claim has been submitted to ARENA for \$46,576. Carnegie has received 95% of Perth Project milestone payments with \$955,042 worth of milestone claims remaining.

During the quarter, Carnegie also submitted a milestone payment claim to ARENA for the completion of the CETO 6 concept design. This is the second milestone completed for the CETO 6 Project at Garden Island.

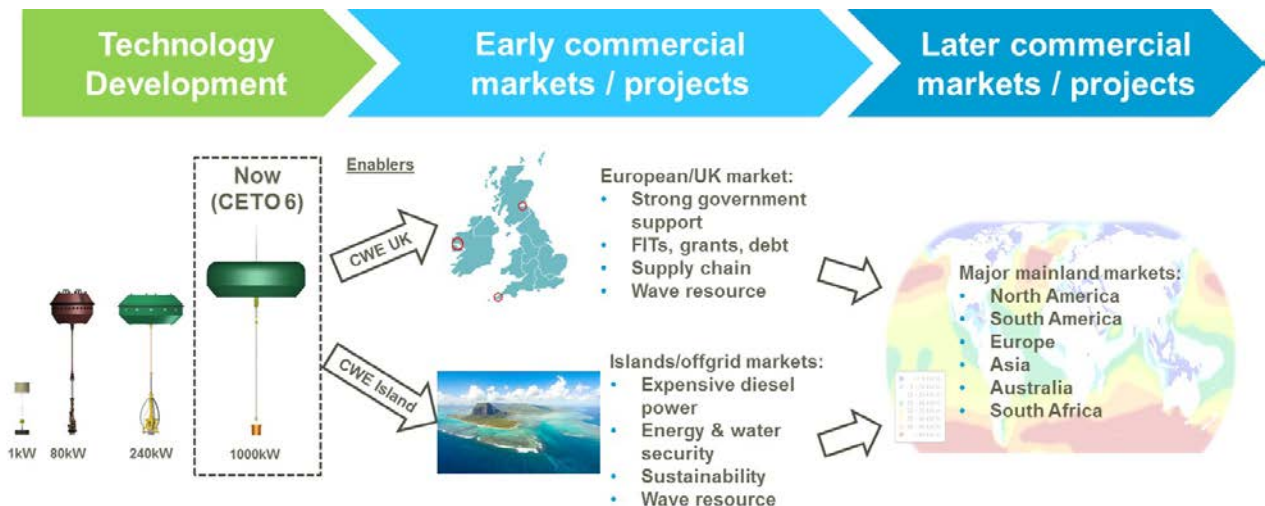
### **Awards**

During the quarter, Carnegie was honoured with two industry awards. The first award was presented by the Clean Energy Council of Australia, with Carnegie being selected as the winner in the innovation category amongst a competitive field for its ground breaking work with the Perth Wave Energy Project. Carnegie was also named one of Business Review Weekly's (BRW) 50 Most Innovative Companies, from over 500 entries.

## **4. Project Pipeline**

### **Commercialisation Strategy**

During the quarter, Carnegie refined and focused its commercialisation strategy onto two key markets; the European and United Kingdom wave energy market; and the remote island/offgrid market.



**Overview of Carnegie's commercialisation strategy**

## Europe and United Kingdom

There are a number commercial drivers for Carnegie's focus on the European and United Kingdom wave energy markets, these include:

- multiple dedicated wave energy sites in Europe and UK that are either operational offering pre-consented sites and electrical connections back to shore with existing power purchase agreements, or are under development. Combined these offer an efficient means to deliver nearly 100MW of installed capacity.
- dedicated and attractive wave energy support mechanisms such as high feed in tariffs that provide enhanced revenues to offset development costs, and government, grants & debt facilities
- experienced supply chain for manufacturing, assembly, installation and maintenance

As one of the few well capitalised wave technology developers in the world with tens of thousands of in-ocean operational, hours, Carnegie is well placed to benefit from the funding and project opportunities available in Europe and the United Kingdom. Carnegie currently has a local subsidiary, CWE UK, a project site in Cornwall at the Wave Hub facility has been awarded grants for R&D and site development, and is actively applying for UK and European grant funding to support project and technology delivery.

## Remote Islands

There are multiple commercial drivers for Carnegie's second target market, remote islands, these include:

- High reliance on electricity generated using imported fossil fuel, which is expensive, has high greenhouse emissions, lacks energy security, and presents additional environmental risks e.g. spills.
- Many islands and remote communities are on the front line of climate change and are introducing aggressive renewable energy targets
- Increasing government and political support from development banks, and nation states to fund renewable energy penetration on islands and develop an embedded local capability to deliver these

Carnegie's CETO technology offers an attractive option for remote islands with an economic wave resource however the remote locations and lack of infrastructure make most islands less than ideal for immediate CETO deployment. Carnegie's strategy therefore, is to make islands "CETO ready", while Carnegie makes CETO "island ready". The latter means continuing the focus on making CETO easy to deploy, operate and maintain, whilst the former means focusing on the most effective way to integrate CETO into existing island infrastructure.

Deploying CETO into island markets will inevitably involve integrating CETO into existing grid infrastructure alongside existing diesel, and, increasingly, renewable power generation. Making islands "CETO-ready" therefore involves Carnegie becoming involved in renewable energy microgrids. Microgrids are combinations of different renewable energy technologies often operated in conjunction with existing diesel generation and increasingly involving energy storage and a sophisticated control system. Carnegie is in active discussions with a number of organisations to deploy CETO in renewable island microgrid projects, including desalination.

### ***European and UK Activities Update***

Carnegie continued to build its presence in the European and UK renewable energy industries. During the quarter, Carnegie was invited to present at a number of major ocean and wave energy conferences, such as the European Wave & Tidal Energy Conference (EWTEC) in Nantes, France, the Scottish Renewables Marine Conference in Inverness, Scotland and the Ocean Energy Europe Conference (OEE) in Dublin, Ireland.



**CWE UK CEO, Tim Sawyer presenting at the Ocean Energy Europe Conference in Dublin, Ireland**

During the OEE conference in Dublin, EU Ocean Energy Association launched its Draft Strategic Roadmap. The roadmap is a key strategic document that outlines the requirements to accelerate the development of ocean energy, including wave energy, to exploit the enormous market potential and maintain Europe's leading position in the sector.

The roadmap estimates that ocean energy, including wave energy, could yield 337,000 MW of installed low carbon electrical generation capacity globally by 2050 of which up to 100,000W could be in Europe. With the right support, the size of the prize is significant with estimates suggesting €653 billion for 2010-2050 and an annual market of up to €53 billion, as well as new jobs in an emerging sector. The roadmap recommends public-private cooperation to fund 10 demonstration and pre-commercial ocean energy projects and the cost of infrastructure to connect at least 300 MW of ocean energy devices EU-wide. The draft roadmap will now be further refined with view to reaching agreement with EU decision makers to deliver the plan, with implementation to commence by the summer of 2016.



Separately, Carnegies activities in the northern hemisphere have resulted in significant interest in a dual listing on the London Stock Exchange's (LSE) Alternative Investment Market (AIM) due to the depth of capital in the renewable energy space at present in the UK and Europe. Carnegie will consider its options in regard to the benefits of a secondary AIM listing in 2016.

### ***Remote Islands***

Significant progress was made during the quarter with Carnegie's remote island market pipeline through the signing of agreements with the Governments of Mauritius and the Seychelles. Both agreements focus on identifying the opportunities and development pathways for commercial wave energy plants in both nations, as well as exploring potential microgrid opportunities that would enable CETO wave farms to be integrated into the existing power infrastructure to supply clean power and freshwater.



**L- R: Philippe Morin, CEO Republic of Seychelles Public Utilities Corporation; Didier Dogley, Seychelles Minister for Environment, Energy and Climate Change; Greg Allen, Carnegie Wave Energy Chief Operating Officer; Australian Parliamentary Secretary to the Minister for Foreign Affairs, The Hon. Steven Ciobo MP; Australian High Commissioner to Mauritius and Seychelles and Ambassador to Comoros, Susan Coles at the signing of the MoU at the Indian Ocean Rim Association Conference in Mauritius.**

Additionally, Carnegie announced an expansion to its desalination agency agreement with Australian desalination specialists MAK Water beyond South America to include remote islands. This collaboration aims to capitalise on the opportunity for high quality, containerised desalination solutions in island locations, particularly where they can be powered by wave energy integrated island microgrids.

The first joint Carnegie/MAK Water island opportunity is currently underway with MAK Water's desalination experts undertaking the technical reviews, site upgrades and capital replacement at 4 sites on remote Indian Ocean Islands identified by Carnegie. Further information will be provided as these opportunities mature.

### ***Australian Research Council Grant Awarded***

Australia, along with selected UK and European projects, will remain the centre of research and product development for CETO. An example is the award of a grant from the Australian Research Council towards a \$460,000 project to investigate more technically and cost efficient sub-sea anchoring systems for CETO. The project will be delivered in conjunction with the University of Western Australia and will focus on the development of novel subsea foundations that will assist in reducing the cost of CETO projects in the future.

### **About Carnegie**

[Carnegie Wave Energy Limited](#) is an Australian, ASX-listed (ASX:CWE) wave energy technology developer. Carnegie is the 100% owner and developer of the CETO Wave Energy Technology intellectual property. Carnegie is focussed on commercial opportunities in key target markets including UK, Europe and remote islands.

### **About CETO**

The CETO system is different from other wave energy devices as it operates under water where it is safer from large storms and invisible from the shore. CETO technology characteristics include:

- Converts ocean wave energy into zero-emission electricity and desalinated water.
- Environmentally friendly, has minimal visual impact and attracts marine life.
- Fully-submerged in deep water, away from breaking waves and beachgoers.

### **Perth Wave Energy Project ('PWE') Fact File**

- PWE is the world's only operating commercial-scale CETO grid and desalinated water connected wave energy project.
- The Perth Wave Energy Project is supported by \$13.1m funding from the Australian Renewable Energy Agency.
- PWE is supported by \$7.3 million from the Government of Western Australia's Low Emissions Energy Development (LEED) Fund. This is part of a larger \$10 million LEED grant, awarded to Carnegie by the Western Australian Government, to support the development of the CETO technology from concept through to completion of PWE.
- The Desalination Pilot is supported by a \$1.27m AusIndustry grant from the Clean Technology Innovation Program.
- Providing clean, renewable energy and potable desalinated water to Australia's largest naval base, HMAS Stirling, on Garden Island in Western Australia.

### **CETO 6 Project Fact File**

The CETO 6 unit has a targeted 1MW (1000kW) power capacity, some four times of the current CETO 5 generation being used in the Perth Project. It will have a superior efficiency, lower capital and maintenance costs than any CETO product generation developed to date. The CETO 6 Project is supported by \$11m in Australian Government grant funding through the Australian Renewable Energy Agency's Emerging Renewables Program and a five year \$20 million loan facility from the Australian Clean Energy Finance Corporation. The clean, renewable energy generated by the Project will be sold to the Australian Department of Defence at Australia's largest naval base, HMAS Stirling, on Garden Island in Western Australia.

### **About ARENA**

ARENA was established by the Australian Government to make renewable energy technologies more affordable and increase the amount of renewable energy used in Australia. ARENA invests in renewable energy projects, supports research and development activities, boosts job creation and industry development, and increases knowledge about renewable energy. ARENA is currently supporting more than 200 projects and is actively seeking new projects to support.

### **For more information:**

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# Appendix 4C

## Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

CARNEGIE WAVE ENERGY LIMITED

ABN

69 009 237 736

Quarter ended ("current quarter")

30 September 2015

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from customers	-	-
1.2 Payments for (a) staff costs*	(694)	(694)
(b) advertising and marketing	(18)	(18)
(c) research and development	(2,175)	(2,175)
(d) leased assets	(9)	(9)
(e) other – corporate overheads & working capital	(330)	(330)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	19	19
1.5 Interest and other costs of finance paid	(4)	(4)
1.6 Income taxes refunded	-	-
1.7 Other -		
(a) ERP, LEED and AusIndustry Grant Funding Receipts	20	20
(b) Royalty Income	377	377
<b>Net operating cash flows</b>	<b>(2,814)</b>	<b>(2,814)</b>

### Notes

- a. The staff costs (a) exclude payroll related to research and development activities, those payroll costs are included in research and development (c).

**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

	Current quarter \$A'000	Year to date (3 months) \$A'000
1.8 Net operating cash flows (carried forward)	(2,815)	(2,815)
<b>Cash flows related to investing activities</b>		
1.9 Payment for acquisition of:	-	-
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	1	1
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
	<b>1</b>	<b>1</b>
<b>Net investing cash flows</b>		
<b>1.14 Total operating and investing cash flows</b>	<b>(2,813)</b>	<b>(2,813)</b>
<b>Cash flows related to financing activities</b>		
1.15 Proceeds from issues of shares, options, etc.	-	-
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other – Proceeds from issue of convertible notes	-	-
	-	-
<b>Net financing cash flows</b>		
<b>Net increase (decrease) in cash held</b>	<b>(2,813)</b>	<b>(2,813)</b>
1.21 Cash at beginning of quarter/year to date	5,329	5,329
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 <b>Cash at end of quarter</b>	<b>2,516</b>	<b>2,516</b>

**Notes**

b. The cash at the end of the quarter excludes the following cash receipts:

- A net cash rebate of \$12m for the Research and Development tax incentive for the 2015 financial year, which was received on 14 October 2015
- A royalty income payment of \$228,726 for the quarter ended 30 September 2015 to be received by 31 October 2015.

+ See chapter 19 for defined terms.

## **Payments to directors of the entity and associates of the directors**

### **Payments to related entities of the entity and associates of the related entities**

	Current quarter \$A'000
1.24 Aggregate amount of payments to the parties included in item 1.2	284
1.25 Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Payments to Directors are consulting fees, salary and superannuation.

## **Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

Nil

## **Financing facilities available**

*Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities – Convertible Notes & Senior Debt Facility	23,690	3,690
3.2 Credit standby arrangements	-	-
3.3 Australian Government grant funding facilities	35,318	23,308

c. The loan facilities includes a \$20 million senior debt loan facility with the Australian Clean Energy Finance Corporation which reached financial close on the 25 January 2015 and which has not yet been drawn upon. The Facility expires on 18 March 2019.

+ See chapter 19 for defined terms.



**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

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Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
4.1	Cash on hand and at bank	1,912	2,725
4.2	Deposits at call	-	2,000
4.3	Bank overdraft	-	-
4.4	Other (provide details) – <i>Guarantee facilities</i>	604	604
<b>Total: cash at end of quarter</b> (item 1.23)		<b>2,516</b>	<b>5,329</b>

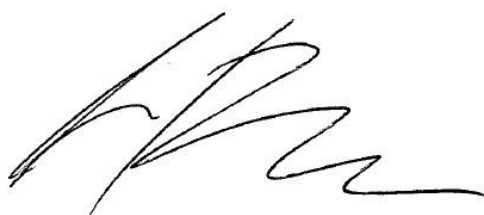
**Acquisitions and disposals of business entities**

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	-	-
5.2 Place of incorporation or registration	-	-
5.3 Consideration for acquisition or disposal	-	-
5.4 Total net assets	-	-
5.5 Nature of business	-	-

**Compliance statement**

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.)
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Print name: AIDAN FLYNN Company Secretary

Date: 27 October 2015

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+ See chapter 19 for defined terms.

## Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
  - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
  - 9.2 - itemised disclosure relating to acquisitions
  - 9.4 - itemised disclosure relating to disposals
  - 12.1(a) - policy for classification of cash items
  - 12.3 - disclosure of restrictions on use of cash
  - 13.1 - comparative information
3. Accounting Standards. ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.