ASX Announcement

24th July 2013

Report to Shareholders for the Quarter Ended 30th June 2013

ACTIVITIES SUMMARY

During the quarter Carnegie Wave Energy Limited (ASX: CWE) focused on progressing its Perth Wave Energy Project (the Perth Project) including the transition from the design phase into the procurement phase ahead of construction beginning next quarter.

Highlights from the quarter:

- Commitments placed with suppliers for 9 out of 10 key elements of the Perth Project
- Carnegie received formal handover of the onshore site for Perth Project from the Australian Department of Defence.
- Additional $2.7m in government funding awarded to the Perth Project bringing total government support for the project to $20.4m
- CETO Seawater Desalination Pilot Plant government grant funding agreement executed and first payment received from AusIndustry.
- Approval of CWE Ireland Foreshore License application in County Clare, Ireland.
- Visits to Carnegie Wave Energy Research Facility by the US Ambassador and Consul General, and the French Navy.

1. Perth Wave Energy Project

Australian Department of Defence Hands Control of Onshore Site to Carnegie

In June the onshore site for the Perth Project, located at Garden Island, HMAS Stirling, was officially handed over from the Australian Department of Defence to Carnegie ahead of commencement of construction activities. This important step is indicative of the significant work by both the Department of Defence and Carnegie.

Carnegie's Project Development Officer, Tim Sawyer (left) and Carnegie Operations Engineer Andrew Mercer with Captain Angela Bond, HMAS Stirling Commanding Officer

Carnegie has been working with the Department of Defence since the signing of a Memorandum of Understanding in December 2008. In July 2012, Carnegie signed power supply and grid connection agreements with the Australian Department of Defence for electrical Power from the Perth Project to be supplied exclusively to Australia's largest naval base, HMAS Stirling.

Supplier Commitments for 9 out of 10 Perth Project Key Elements

During the quarter Carnegie made commitments to suppliers for 9 out of the 10 key elements of the Perth Project as detailed below. This was a major step forward for the Perth Project and represents approximately $15m in commitments. Award of the contracts followed detailed design work and competitive bidding processes which compared quality, cost, delivery and health and safety. Commitment for the final key element is expected to be made during the current quarter.

Perth Project Offshore Foundations

Carnegie made a multi-million dollar commitment for the manufacture and installation of the offshore Foundations for the CETO units.

The contract for the installation of the Foundations was awarded to Fugro Seacore (Australia) Pty Ltd. As a provider of geotechnical services and specialist foundation solutions worldwide, Fugro Seacore is highly experienced in marine renewables. The onsite installation of the foundation is scheduled to begin in Quarter 4, 2013.

Keppel Prince Engineering Pty Ltd (Keppel), based in Portland, Victoria, has been awarded the order to supply and fabricate the materials for the structural pile foundations. The structural pile foundations will be manufactured from steel supplied by Bluescope Steel in Port Kembla, New South Wales.

GHD Pty Ltd completed the detailed design and installation methodology for the Foundation. GHD is an international network of engineers, architects and environmental scientists in the water and energy and resources industries.

Fugro Seacore Platform "Ensung" which will be used in the Perth Project

CETO Unit Tethers

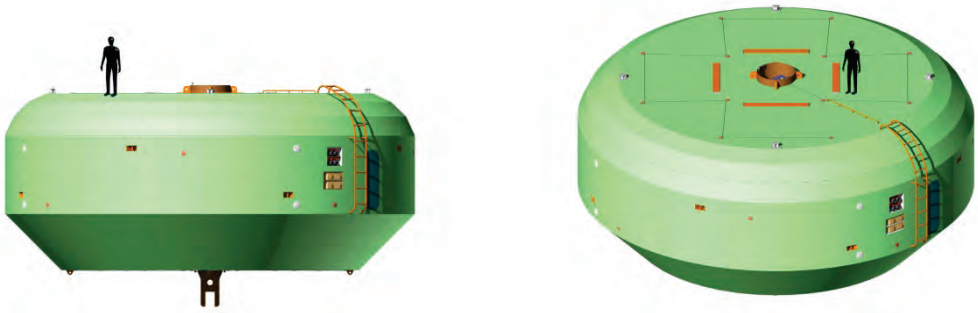
An order for the CETO unit Tethers has been placed with Subsea Riser Products Ltd (SRP), a specialist supplier of hardware for critical offshore applications. SRP were also awarded the contract for the CETO Unit Attachments and Foundation Connectors.

Design Drawing of CETO Unit Tether

CETO Unit Buoyant Actuators

An order for the CETO Unit Buoyant Actuators was placed with WA owned and based Strategic Marine.

The Buoyant Actuators are primarily manufactured from steel and consist of internal structural elements covered by an external shell. The internal fit out of the Buoyant Actuator includes the energy relief system, internal ballast tanks and internal fixed buoyancy modules. The Buoyant Actuators are fully instrumented to provide high frequency detailed data on its motions and loads in real time.



CETO 5 Buoyant Actuator Design

Strategic Marine is a shipbuilding and engineering company with a reputation for producing quality, high performance vessels for international markets.

CETO Unit Attachment & Foundation Connectors

Subsea Riser Products Ltd (SRP) received an order to supply the Attachments and Foundation Connectors for the CETO units.

The Foundation Connector is an automatic latching type connector that takes the place of a bolted connection between the base of the CETO Units and the Foundations. It provides the ability for a quick connect and release of the CETO Unit thereby significantly reducing the time taken to install and recover the CETO Units.

The CETO Unit Attachment provides the articulated connection between the base of the CETO Units and the Foundations. The configuration of the Attachment is similar to that of a conventional universal joint and is manufactured from carbon steel.

CETO Unit Attachment and Foundation Connectors

SRP designs and supplies specialist riser hardware that connects subsea oil and gas wells to surface production and drilling facilities. Its range of riser products is developed to offer improved performance, reduced cost, increased reliability and shorter supply schedules. SRP's capability stems from a heritage of subsea and riser experience which enables practical and cost effective hardware solutions to be identified, developed and manufactured to meet specific applications.

Piping Material

An order has been placed for the subsea Pipeline system with FlexSteel Pipeline Technologies (FlexSteel). FlexSteel is an experienced piping manufacturer and supplier, with over 20 years' experience, specialising in flexible steel reinforced pipe for demanding offshore environments. Flexible piping offers durability and efficient installation compared to more conventional rigid pipe.

Example of FlexSteel Pipe (L), FlexSteel Installation Example (R)

CETO Unit Pumps

The commercial scale CETO Unit Pumps transfer the mechanical energy captured by the Buoyant Actuators to the Pipeline. The subsea Pumps are manufactured from carbon and stainless steel and are being manufactured and tested to Carnegie's specification by specialist sub-sea hydraulic cylinder manufacturer Douce-Hydro. Douce-Hydro successfully supplied the CETO 3 pump to Carnegie.

CETO Pump Unit

CETO Energy Relief System

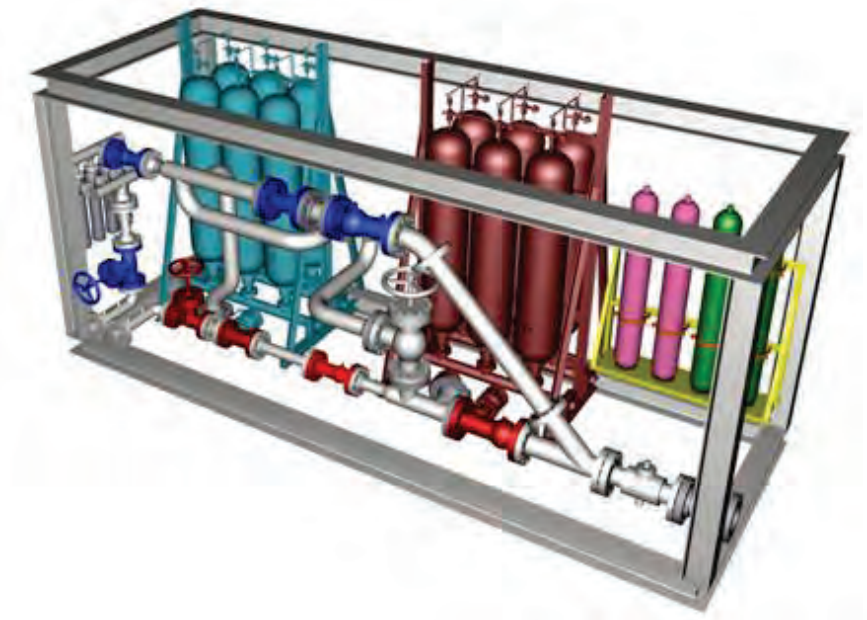
A unique and novel feature of CETO is the incorporation of an energy relief system in the Buoyant Actuator. This allows the CETO Units to self-regulate the amount of energy absorbed from a wave, thereby limiting the total forces transferred to the CETO Units. This in turn allows the CETO Units to continue to operate unhindered through storm events without human intervention. The energy relief systems will be supplied by Tensa Equipment Pty Ltd a company that specialises in the design and supply of dynamic load reducers.

Hydraulic Accumulators

The CETO system incorporates the use of hydraulic accumulators to dampen flow and pressure pulsations in the closed loop hydraulic system. This optimises the performance of the Pipeline and onshore hydro-mechanical equipment. The hydraulic accumulators will be supplied by motion and control technology specialist Parker Hannifin Australia.

Control and Isolation Valves

High pressure control and isolation valves rated for marine operation allow the hydraulic system integrity to be maintained and facilitate control of the CETO system. These valves will be supplied by specialist valve supplier Severn-Glocon Australia Pty Ltd.



CETO Pod showing accumulators and valves

CETO Desalination Government Grant Signed and First Payment Received

Carnegie has signed a formal funding agreement for $1.27m of grant funding from AusIndustry, under the Clean Technology Innovation Program. This funding will be used to support a CETO Seawater Desalination Demonstration Pilot Plant at Garden Island, Western Australia. Work is underway and the first grant payment of $142,692 has been received. This, and subsequent grant payments, support the design, construction and operation of the world first CETO powered Desalination Plant which will desalinate seawater to produce fresh potable water at Garden Island.

Carnegie awarded the detailed design package for the desalination plant to WA based MAK Industrial Water Solutions. The design will allow the plant to be directly powered by hydraulic energy from the offshore CETO wave energy system.

The CETO desalination pilot will be co-located with Carnegie's Perth Project on Garden Island, integrating off-the-shelf reverse osmosis desalination technology with the Perth Project infrastructure. Key initial tasks ahead of construction include completing detailed design, securing environmental approvals, negotiation of a water sales agreement and, if possible, the integration of the construction and commissioning of the desalination pilot with the delivery of Perth Project. The latter would be cost effective as it would allow both projects to be constructed at the same time and then commissioned sequentially.

2. CETO Wave Energy Commercial Opportunities

CETO Wave Energy Ireland Licence Approved

Irish Minister for the Environment, Community and Local Government, Mr Phil Hogan T.D., has approved Carnegie's application for a Foreshore License in respect of site investigation works between Freagh Point and Spanish Point, County Clare.

This site was originally selected by Carnegie's 100% owned Irish subsidiary, CETO Wave Energy Ireland (CWE Ireland), following a formal study of the Irish coastline by CWE Ireland. The study was supported by an Irish Government grant administered by the Sustainable Energy Authority of Ireland (SEAI).

Carnegie's Irish subsidiary CWE Ireland completed a detailed site evaluation and conceptual design study before applying for a licence in 2011. CWE Ireland expects to commence investigative activities during 2013.

Carnegie Hosts US Ambassador and Consul General

In June Carnegie welcomed US Ambassador to Australia His Excellency Mr Jeff Bleich and U.S. Consul General Ms Aleisha Woodward, to its Wave Energy Research Facility in Fremantle, Western Australia. Carnegie's Chairman, Mr Grant Mooney, and Project Development Officer, Mr Tim Sawyer, provided a briefing on Carnegie's flagship Perth Project and commercial wave energy opportunities in North America.

The meeting coincided with U.S. President Obama's speech at Georgetown University, where the President announced a package of measures aimed at cutting carbon pollution and moving toward a low-carbon, clean energy economy.

Specific measures include limits on carbon emissions from new and existing power plants, doubling electricity generated by renewable energy, and for the Department of Defence, as the biggest energy consumer in America, to install 3,000 megawatts of renewable power across its bases.

Ambassador Jeff Bleich and Consul General Alicia Woodward with Carnegie's Chairman Grant Mooney (far left) and Project Development Officer Tim Sawyer (far right)

Carnegie Host French Navy

Carnegie welcomed Vice Admiral Stéphane Verwaerde, Deputy Chief of the French Navy, to its private Wave Energy Research Facility during May. Carnegie's Chief Executive Officer, Dr Michael Ottaviano and Project Development Officer, Mr Tim Sawyer, gave the Vice Admiral and his party a tour of the Fremantle facility, and discussed Carnegie's ongoing relationship with French utility, EDF and French naval supplier DCNS.

Carnegie and its technology licensee, French utility EDF-EN, are working together towards the joint development of commercial scale CETO projects. The deployment and installation of the CETO 4 prototype unit funded by EDF EN on the French Réunion Island, is being independently managed by French maritime defence specialist, DCNS, and is ongoing.

Vice Admiral Stéphane Verwaerde, Deputy Chief of Navy, Captain Arnaud Bielecki, Defence Attaché, receiving a briefing on the CETO technology from Carnegie CEO Dr Michael Ottaviano.

Réunion Island

As previously advised French power utility EDF EN and French maritime defence specialist DCNS, are deploying the CETO 4 unit on La Réunion Island in the Indian Ocean. The Réunion Island Project is funded by EDF EN and both the French and La Réunion Governments. Stage 1 of the Réunion Island Project involves the deployment of a 10m diameter autonomous CETO Unit and accompanying subsea energy management system. The manufacture and installation of the unit is being managed by DCNS.

Key representatives from EDF EN, EDF and DCNS travelled to Carnegie's headquarters in Fremantle this year for a detailed planning session focused on the next steps for the Reunion Island Project beyond the current CETO 4 prototype. In relation to the CETO 4 unit, EDF EN informed Carnegie that the Buoyant Actuator is still waiting upon an appropriate weather window for connecting to the balance of plant which is already installed at the project site. The status and details on subsequent project development steps will be released once they have been further advanced.

3. Corporate Activities

Variations to Government Funding

During the quarter Carnegie renegotiated its government funding arrangements with both the Federal and Western Australian governments for the Perth Project. In total an additional $2.7m in government funding has now been awarded to the Perth Project bringing total government support for the project to $20.4m. This consists of $13.1m from the Federal Government, as part of the Australian Renewable Energy Agency's (ARENA) Emerging Renewables Program (ERP), and $7.3m from the WA State Government through its Low Emissions Energy Development (LEED) fund. The Perth Project budget remains unchanged at $31m.

The $7.3m in LEED funding is part of a larger $10m LEED grant, awarded to Carnegie by the WA Government, to support the development of the CETO technology from concept through to completion of the Perth Project.

Along with the AusIndustry desalination grant, total Government support for the Perth Project, incorporating both power and water production, is $21.6m, with a total budget of $34m.

Global Marine Renewable Energy Conference Presentation, Washington DC

Dr Michael Ottaviano, CEO presented in Washington DC at the Global Marine Renewable Energy Conference, in the Wave Technology Developers session and sat on the Utility & Developer panel alongside EDF, Atlantis Resources and Snohomish PUD.

All Energy 2013 Conference Presentation, Aberdeen

Dr Michael Ottaviano, CEO presented in Aberdeen, Scotland at the All Energy 2013 Conference in the Wave and Tidal Innovation Seminar.

2013 World Renewable Energy Congress Presentation, Perth WA

Carnegie Research and Intellectual Property Manager, Dr Laurence Mann delivered a presentation titled “Opportunities and Challenges for Ocean Renewable Energy in the Twenty-First Century” and also Chaired of the Wind Energy session. Carnegie’s Project Development Officer, Mr Tim Sawyer chaired the session on Wave Energy, during which one of Carnegie’s senior engineers, Mr David Harrowfield presented a paper.

In addition to formal WREC proceedings, Carnegie hosted an informal mixer at its information booth to provide the research community with a chance to share knowledge and experiences in an informal environment.

Carnegie’s Research and IP Manager, Dr Laurence Mann and Project Development Officer, Tim Sawyer with WA Chief Scientist, Professor Lyn Beazley and Prof. Andris Stelbovics, Prof. Vishnu Pareek and Prof. Moses Tadé, all of Curtin University

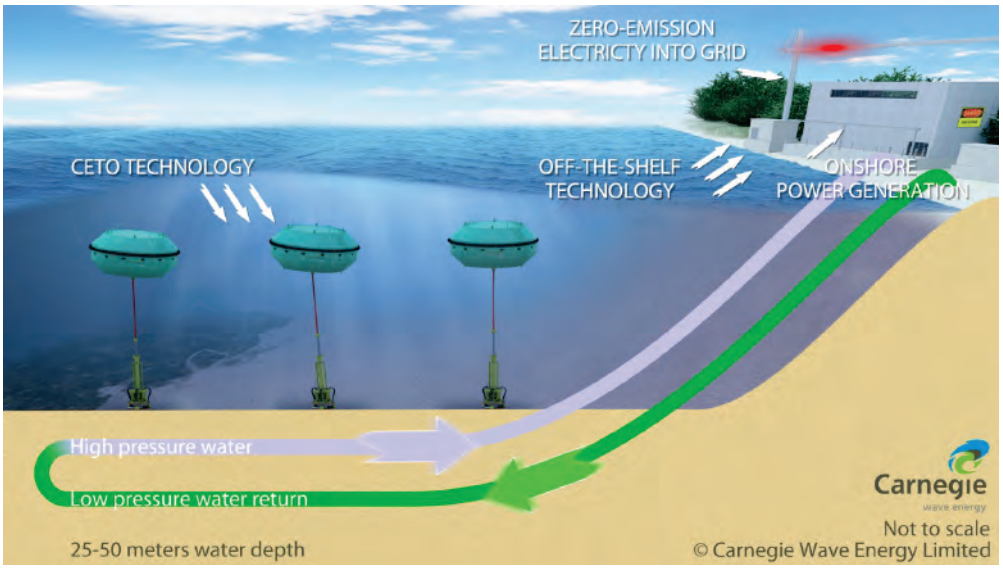
About Carnegie

Carnegie Wave Energy Limited is an Australian, ASX-listed (CWE) wave energy developer. Carnegie is the 100% owner and developer of the CETO wave energy technology intellectual property.

About CETO

The CETO system distinguishes itself from other wave energy devices by operating out of sight and by generating electricity on shore. An array of submerged buoys is tethered to seabed pump units. The buoys move in harmony with the motion of the passing waves, driving the pumps which in turn pressurise water that is delivered ashore via a pipeline.

On shore high-pressure water is used to drive hydroelectric turbines, generating zero-emission electricity. The high-pressure water can also be used to supply a reverse osmosis desalination plant, reducing electrical energy conversion losses and replacing greenhouse gas emitting electrically driven pumps usually required for such plants. The technology is also capable of generating power offshore should the specific characteristics of a project site require it.



- CETO converts wave energy into zero-emission electricity and desalinated water.
- CETO is environmentally friendly, has no visual impact and co-exists with marine life.
- CETO is fully submerged, where it is safer from storms, and in deep water away from popular surf breaks and coastal activities.

Perth Wave Energy Project ('PWEP') Fact File

- Upon completion, PWEP will be Australia's first commercial-scale CETO grid-connected wave energy project.
- The Project is supported by $13.1m in Australian Government funding through the Australian Renewable Energy Agency's Emerging Renewables Program.
- PWEP 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 WA Government, to support the development of the CETO technology from concept through to completion of PWEP.

- The Desalination Pilot is supported by a $1.27m AusIndustry grant from the Clean Technology Innovation Program.
- Utilising Carnegie's fully submerged and commercial proven CETO wave energy device.
- Providing clean, renewable energy to Australia's largest naval base, HMAS Stirling, on Garden Island in Western Australia.
- Providing potable desalinated water.

For more information:

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Rule 4.7B

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	Quarter ended ("current quarter")
69 009 237 736	30 June 2013

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date (12 months) $A'000
1.1	Receipts from customers	-	-
1.2	Payments for (a) staff costs	(651)	(1,960)
	(b) advertising and marketing	(28)	(96)
	(c) research and development	(3,447)	(6,338)
	(d) leased assets	-	-
	(e) other working capital	(438)	(1,706)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	155	336
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes refunded	-	1,167
1.7	Other (provide details if material) – ERP, LEED and EMDG Grant Funding Receipts	1,189	2,106
	Net operating cash flows	**(3,220)**	**(6,491)**

+ See chapter 19 for defined terms.

		Current quarter $A'000	Year to date (12 months) $A'000
1.8	Net operating cash flows (carried forward)	(3,220)	(6,491)
	Cash flows related to investing activities		
1.9	Payment for acquisition of:	-	-
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	(1)	(30)
	(e) other non-current assets	-	-
1.10	Proceeds from disposal of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	9
	(c) intellectual property	-	-
	(d) physical non-current assets	-	
	(e) other non-current assets	-	-
1.11	Loans to other entities	-	(1)
1.12	Loans repaid by other entities	-	-
1.13	Other (provide details if material)	-	-
	Net investing cash flows	**(1)**	**(22)**
1.14	**Total operating and investing cash flows**	**(3,221)**	**(6,513)**
	Cash flows related to financing activities		
1.15	Proceeds from issues of shares, options, etc.	(67)	13,380
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	-	-
	Net financing cash flows	**(67)**	**13,380**
	Net increase (decrease) in cash held	(3,288)	6,867
1.21	Cash at beginning of quarter/year to date	15,485	5,330
1.22	Exchange rate adjustments to item 1.20	-	-
1.23	**Cash at end of quarter (see note a. below)**	**12,197**	**12,197**

+ 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	309
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	-	-
3.2	Credit standby arrangements	-	-
3.3	Australian Government grant funding facilities	24,318	4,846

+ See chapter 19 for defined terms.

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	11,829	11,967
4.2	Deposits at call	-	3,150
4.3	Bank overdraft	-	-
4.4	Other (provide details) – *Guarantee facilities*	368	368
	Total: cash at end of quarter (item 1.23)	**12,197**	**15,485**

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.

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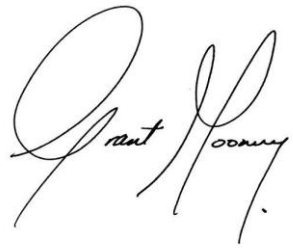

Print name: GRANT J. MOONEY Company Secretary

Date: 23 July 2013

+ 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.

+ See chapter 19 for defined terms.