ASX Announcement

31st January 2011

Report to Shareholders for the Quarter Ended 31st December 2010

ACTIVITIES SUMMARY

Carnegie Wave Energy Limited (ASX: CWE) has made substantial progress on the final stage of delivery of the commercial scale demonstration unit of its CETO wave energy technology. Commercial scale components have arrived at Fremantle and are now undergoing testing and preparation for mobilisation ahead of CETO system deployment and testing off Garden Island in Western Australia. Carnegie has advanced its international CETO project development including the signing of Government collaboration and funding agreements in Ireland as well as the appointment of its fourth European based Director Mr Clive Callister. In December 2010 Carnegie successfully raised over $6 million through a fully underwritten and oversubscribed Share Purchase Plan.

1. CETO Wave Energy Technology Development

The commercial scale CETO 3 deployment and testing activities are underway as is preparation for mobilisation ahead of offshore CETO system deployment and testing at Garden Island.

Mobilisation activities for the deployment and installation have progressed including the awarding of a vessel charter contract to North Fremantle-based Total AMS, an experienced offshore equipment, mooring and diving service provider. A contract for installation was awarded to Perth based AME Pty Ltd ("AME"), an offshore solutions provider, for the engineering, project management and supervision of the CETO 3 installation and retrieval.

Buoyant Actuator (BA)

The in-ocean testing of the commercial scale Buoyant Actuator (BA) has been successfully completed at the Australian Marine Complex south of Perth, Western Australia. The in-ocean testing successfully verified key aspects of the BA unit including its dry weight, buoyancy, ballasting and hydrodynamic motion performance.

BA in-ocean testing at the Australian Marine Complex

Pump

French-based manufacturer, Douce Hydro, successfully completed the commercial scale pump Factory Acceptance Testing (FAT) regime including pressure testing, friction measurement, full extension and retraction test as well as detailed dimensional checks.

The pump has been installed in the onshore pump and hydraulic system test rig at Carnegie's Fremantle facility. The rig cradles the commercial scale CETO pump horizontally where it is stroked by a hydraulic actuator powered by a 400kW hydraulic power unit. The test program involves stroking the pump under various loads and velocities using sinusoidal profiles that simulate wave conditions. Instrumentation mounted on the pump and hydraulic module records the system performance during both onshore and offshore testing.

CETO onshore pump and hydraulic test rig at Carnegie's Fremantle Test Facility

Attachment

The pump-to-foundation attachment met all the required quality tests ahead of shipping to Fremantle for final fit out from manufacturers Techlam of France. Techlam specialises in elastomeric components typically used in submarine and offshore applications whose requirements are not dissimilar to those of CETO.

Pump to Foundation Attachment

Communications Buoy

The Communications Buoy, the offshore instrumentation system that controls the CETO3 unit and relays data to shore was completed and delivered to Carnegie's Fremantle facility. The buoy houses the transmitters that send the collected data back to shore via 3G infrastructure. Onshore testing of this equipment is underway.

CETO Communications buoy and mooring delivered ahead of deployment

Marine Safety Markers

The marine safety markers have been deployed and a closure area implemented around the deployment site off Garden Island, Western Australia. The markers and closure area are a requirement of the Western Australia Department of Transport under the *Western Australian Marine Act 1982* to maintain and protect the safety of marine navigation and the broader environment.

Cardinal markers onshore prior to deployment (left) Cardinal markers deployed offshore at Garden Island site (right)

2. CETO Desalination Technology

Carnegie continued working towards commercialising the CETO Technology's ability to produce zero-emission desalinated freshwater. During the quarter Carnegie finalised scoping activities for its desalination project aimed at demonstrating the lowest risk and most cost effective means to realise zero-emission desalinated freshwater production from a CETO project. Whilst the production of freshwater from CETO has been proven at the CETO 1 proof of concept stage in 2006, the aim of an initial desalination demonstration project would be to retrofit an existing CETO closed loop power project with desalination capability.

3. CETO Wave Energy Commercial Opportunities

Carnegie continued to progress the commercial aspects of its Perth Wave Energy Project including receiving in principle approval for the onshore licence and implementing the closure area for the commercial scale unit deployment.

In Ireland, Carnegie signed a three year Collaboration Agreement with the Sustainable Energy Authority Ireland's (SEAI) Ocean Energy Development Unit (OEDU) to jointly develop a Wave Energy Project at the Belmullet Wave Energy Test Site, and other locations in Ireland (the "Ocean Energy Project"). Carnegie was subsequently awarded grant funding by the SEAI for 50% of a detailed site evaluation study and project conceptual design. The study, which forms the first phase of detailed design for a potential 5MW commercial demonstration project in Irish waters was appointed to Ireland-based engineering specialists RPS Consulting Engineers and work has commenced. The project will be managed through Carnegie's Irish subsidiary CETO Wave Energy Ireland Limited (www.cweireland.ie).

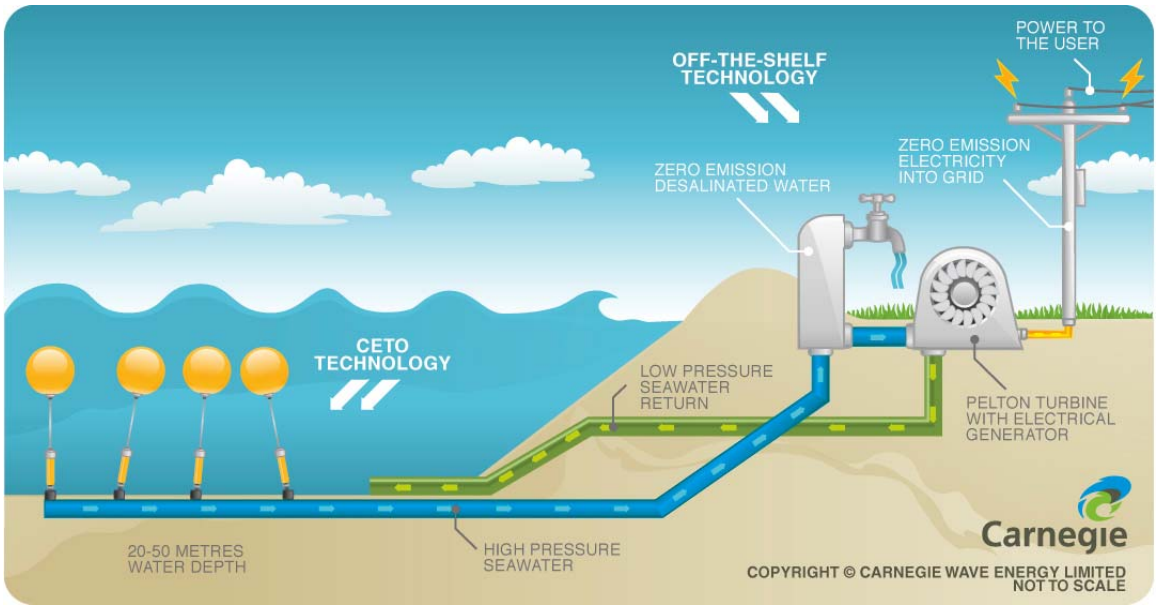
Carnegie in conjunction with its Bermudan based partner Triton Renewable Energy Limited ('Triton') was awarded approval for the deployment of a wave monitoring buoy off Bermuda. The deployment of the wave buoy is a critical step in determining the site specific wave energy resource which in turn assists with project design. The buoy will be deployed in 25m of water on the eastern side of Bermuda for a minimum period of 12 months and is being managed locally by Triton Renewable Energy in partnership with

the Bermudan Weather Service. The wave buoy was shipped from Carnegie's research facility in Fremantle, Western Australia for deployment in Bermuda.

About CETO

The CETO system distinguishes itself from other wave energy devices by operating out of sight and being anchored to the ocean floor. 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.

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.



CETO Technology characteristics include:

- 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.

About Carnegie

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

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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	31 December 2010

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date (6 months) $A'000
1.1	Receipts from customers	-	-
1.2	Payments for (a) staff costs	(290)	(695)
	(b) advertising and marketing	(7)	(18)
	(c) research and development	(2,119)	(4,418)
	(d) leased assets	-	-
	(e) other working capital	(442)	(956)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	65	126
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (provide details if material) – REH repayment	1,506	1,506
	Other (provide details if material) – WA LEED grant	-	848
	Net operating cash flows	**(1,287)**	**(3,607)**

+ See chapter 19 for defined terms.

		Current quarter $A'000	Year to date (6 months) $A'000
1.8	Net operating cash flows (carried forward)	(1,287)	(3,607)
	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	(13)	(19)
	(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)	-	-
	Net investing cash flows	**(13)**	**(19)**
1.14	**Total operating and investing cash flows**	**(1,300)**	**(3,626)**
	Cash flows related to financing activities		
1.15	Proceeds from issues of shares, options, etc.	6,150	6,150
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 (provide details if material)	-	-
	Net financing cash flows	6,150	6,150
	Net increase (decrease) in cash held	4,850	2,524
1.21	Cash at beginning of quarter/year to date	3,651	5,977
1.22	Exchange rate adjustments to item 1.20	-	-
1.23	**Cash at end of quarter**	**8,501**	**8,501**

+ 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 *(inclusive of suspended salary payments and entitlements from prior periods)*	220
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

During the quarter, Carnegie was reimbursed over $1.5m from Renewable Energy Holdings plc as part of the outstanding payment associated with REH's requirement to reimburse Carnegie's CETO R&D spend and associated costs from February 2009 through until the completion of the CETO IP acquisition as outlined in Carnegie's ASX announcement on 11 May 2009.

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	-	-

+ 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	7,055	384
4.2	Deposits at call	1,019	2,900
4.3	Bank overdraft	-	-
4.4	Other (provide details) – *Guarantee facilities*	427	367
	Total: cash at end of quarter (item 1.23)	**8,501**	**3,651**

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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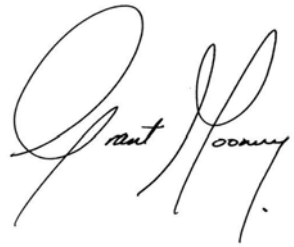

Print name: GRANT J. MOONEY Company Secretary

Date: 31 January 2011

+ 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.